GSA Federal Mail Education Forum
Postal Regulatory Update

Mark D. Acton, Commissioner

June 9, 2016
The Postal Regulatory Commission

• PRC Core Duties

Postal Pricing for 2016

Status of Exigent Rate Case

Latest CPI-U Price Cap Authority

Compliance

• FY2014 Annual Compliance Determination
• Separate Financial Analysis

Latest Tech Credit Promotions

2017 Ratemaking Study

Reform/Legislative Update

Questions & Answers
The Postal Regulatory Commission

Mission Statement: Ensure transparency and accountability of the United States Postal Service and foster a vital and efficient universal mail system

Design of Commission Composition:
• 5 Commissioners, appointed by the President and confirmed by the U.S. Senate—this is the full complement
• Each Commissioner is appointed to 6 year terms
• Balance of political parties is required—there can be no more than 3 Commissioners of one political party
The Postal Regulatory Commission currently has one vacant Commissioner slot

- Commissioner Goldway’s term expired on November 22, 2015 after 18 years of public service
- Commissioner Tony Hammond’s term expires on October 14, 2018
- Commissioner Nanci Langley’s term expires on November 22, 2018
- Acting Chairman Robert Taub’s term expires on October 14, 2016
- Commissioner Mark Acton’s term expires on October 14, 2016
PRC Core Duties

• Ensure the Postal Service Complies with the law and applicable regulations
• Provide the public with transparency and accountability of the United States Postal Service
• Provide Advisory Opinions
The Postal Service has announced that there will be no "postal price change" scheduled for 2016 -- other than the roll-back of the temporary exigency surcharge which just occurred on April 10.

In other words, average prices for market dominant products DECREASED roughly 4.3% starting in April 2016.

USPS still anticipates revenue growth in spite of the exigent rollback, which they predict will be due in large part to increased Parcel delivery.
• As of April 10, the USPS has collected the entirety of its exigent surcharge on monopoly products.

• The Postal Service recovered a total exigent surcharge of $3.957 billion in contribution.
• On August 27, 2015, the Postal Service filed notice with the U.S. Court of Appeals for the D.C. Circuit that it was appealing the Commission’s order on remand for the exigent decision issued at the end of last July (R2013-11R)
• The Postal Service identifies the issue on appeal as "[w]hether the Postal Regulatory Commission’s method of computing the mail volume and contribution lost ‘due to either extraordinary or exceptional circumstances . . . is inconsistent with the test that this Court upheld in Alliance of Nonprofit Mailers, et al. v. Postal Regulatory Commission . . . or is otherwise arbitrary, capricious, or an abuse of discretion.”

• The Court’s review of this appeal is ongoing
# Latest CPI-U Price Cap Authority

(Last Updated May 17, 2016)

## 12-Month Average Change in CPI-U

Prepared by the Postal Regulatory Commission

Last Update: 05/17/2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
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<td>2.8%</td>
<td>2.9%</td>
<td>3.0%</td>
<td>3.1%</td>
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<td>3.5%</td>
<td>3.7%</td>
<td>3.8%</td>
<td>3.9%</td>
<td>3.9%</td>
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<td>2.3%</td>
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<td>3.0%</td>
<td>3.2%</td>
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<td>3.4%</td>
<td>3.5%</td>
<td>3.7%</td>
<td>4.0%</td>
<td>4.3%</td>
<td>4.4%</td>
<td>4.5%</td>
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<td>2.4%</td>
<td>1.9%</td>
<td>1.4%</td>
<td>0.8%</td>
<td>0.2%</td>
<td>-0.324%</td>
<td>-0.634%</td>
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<td>1.252%</td>
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<td>2.743%</td>
<td>2.570%</td>
<td>2.415%</td>
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<td>1.393%</td>
<td>1.396%</td>
<td>1.471%</td>
<td>1.535%</td>
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<td>1.565%</td>
<td>1.580%</td>
<td>1.620%</td>
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<td>1.685%</td>
<td>1.622%</td>
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<td>2015</td>
<td>1.483%</td>
<td>1.386%</td>
<td>1.253%</td>
<td>1.072%</td>
<td>0.891%</td>
<td>0.728%</td>
<td>0.576%</td>
<td>0.451%</td>
<td>0.311%</td>
<td>0.187%</td>
<td>0.120%</td>
<td>0.119%</td>
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<td>2016</td>
<td>0.239%</td>
<td>0.325%</td>
<td>0.402%</td>
<td>0.513%</td>
<td>0.491%</td>
<td>0.478%</td>
<td>0.465%</td>
<td>0.451%</td>
<td>0.311%</td>
<td>0.187%</td>
<td>0.120%</td>
<td>0.119%</td>
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</table>

Compliance: Annual Compliance Determination

• On March 28, 2016, the Commission issued its FY 2015 Annual Compliance Determination
• This report is issued by the Postal Regulatory Commission (PRC) in response to the Annual Compliance Report submitted by USPS to the PRC each fiscal year
• PRC determines whether any price or fee in effect during the year under review was not in compliance with applicable provisions and whether any service standards were not met
Principal Findings for FY 2015 include:

• The majority of products failed to meet service performance targets for FY 2015.

• Service performance results for all First-Class Mail products did not meet their targets
  – The Commission determined that First-Class Mail Single-Piece Letters/Postcards were not in compliance in FY 2015, and directed the Postal Service to improve service performance and provide a comprehensive plan within 90 days

• Seven noncompensatory Market Dominant products are identified: Periodicals In-County, Periodicals Outside County, Standard Flats, Standard Parcels, Media Mail/Library Mail, Inbound Letter Post, and Stamp Fulfillment Services
• Separated from the ACD for the third consecutive year for greater clarity and transparency

• Includes a more in-depth discussion of the cost savings the Postal Service has generated, the financial impact of the various classes of mail, and a review of its assets and liabilities
Findings include:

• At the end of FY 2015, the Postal Service’s total liabilities exceeded the total value of its assets by $50.4 billion. This results from several years of net operating losses starting in FY 2007.

• Although FY 2014 and FY 2015 had a net operating income, the slow replacement of depreciated capital assets and personnel related liabilities contributed to this high net deficiency.

• Total liabilities increased by $6.8 billion dollars, mainly due to the Postal Service’s non-payment of its RHBF statutory obligation and increases in workers’ compensation liability.
• In FY 2015, the Postal Service generated its second consecutive annual net “operating” income

• Negative net worth indicates that the Postal Service has spent both its capital and the debt borrowed from the Federal Financing Bank. Simply put, its debts are no longer secured by its assets.

• The Postal Service has no further access to borrowing under current law
On November 16, 2015, the Postal Service filed with the Postal Regulatory Commission (PRC) seeking approval for five promotions to be held during the 2016 calendar year.

- Emerging and Advanced Technology/Video in Print Promotion
- Tactile, Sensory, and Interactive Mailpiece Engagement Promotion
- Earned Value Reply Mail Promotion
- Mobile Shopping Promotion
- Personalized Color Transpromo Promotion
As per the 2006 Postal Accountability and Enhancement Act, the PRC is required to review the system for regulating rates and classes for market-dominant products ten years after the date of enactment of that legislation (which would be December 20, 2016) Title 39, Sec. 3622(d)(3):
Ten years after the date of enactment of the Postal Accountability and Enhancement Act and as appropriate thereafter, the Commission shall review the system for regulating rates and classes for market-dominant products established under this section to determine if the system is achieving the objectives in subsection (b), taking into account the factors in subsection (c). If the Commission determines, after notice and opportunity for public comment, that the system is not achieving the objectives in subsection (b), taking into account the factors in subsection (c), the Commission may, by regulation, make such modification or adopt such alternative system for regulating rates and classes for market-dominant products as necessary to achieve the objectives.
• The Commission is required by law to consider 9 objectives, while taking into account 14 factors, as described in the previous slide

– In 2016, the Commission plans internal preparations
Objectives—Such system shall be designed to achieve the following objectives, each of which shall be applied in conjunction with the others:

• To maximize incentives to reduce costs and increase efficiency.
• To create predictability and stability in rates.
• To maintain high quality service standards established under section 3691.
• To allow the Postal Service pricing flexibility.
• To assure adequate revenues, including retained earnings, to maintain financial stability.
• To reduce the administrative burden and increase the transparency of the ratemaking process.
• To enhance mail security and deter terrorism.
• To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.
• To allocate the total institutional costs of the Postal Service appropriately between market-dominant and competitive products.
Factors—In establishing or revising such system, the Postal Regulatory Commission shall take into account—

• the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;

• the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;

• the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;

• the available alternative means of sending and receiving letters and other mail matter at reasonable costs;

• the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;

• simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;

• the importance of pricing flexibility to encourage increased mail volume and operational efficiency;

• the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;

• the importance of providing classifications with extremely high degrees of reliability and speed of delivery and of providing those that do not require high degrees of reliability and speed of delivery;

• the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title, including agreements between the Postal Service and postal users, when available on public and reasonable terms to similarly situated mailers, that—
  – either—
    • improve the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service; or
    • enhance the performance of mail preparation, processing, transportation, or other functions; and
  – do not cause unreasonable harm to the marketplace.

• the educational, cultural, scientific, and informational value to the recipient of mail matter;

• the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services;

• the value to the Postal Service and postal users of promoting intelligent mail and of secure, sender-identified mail; and

• the policies of this title as well as such other factors as the Commission determines appropriate.
On September 17, Senate Homeland Security and Governmental Affairs Committee Ranking Member, Sen. Tom Carper, introduced reform legislation, S. 2051, the “Improving Postal Operations, Service, and Transparency Act of 2015”

- Sens. Jerry Moran (R-Kan.), Claire McCaskill (D-Mo.), Roy Blunt (R-Mo.) Susan Collins (R-ME) have cosponsored the legislation

- Broader question is whether targeted legislative changes are more “passable” than broad legislative reform

- Some agree a combination of re-amortization of USPS retiree health benefits prepayments, and the ability to administer its own health care plan would put USPS in a sustainable financial position
Factors (+) favoring/ (-) not favoring reform?

- (+) Reform of some form is needed!
- (-) The Postal Service had its second consecutive operational profit since 2008, which may impact the chances of reform as USPS circumstance seem less dire
- (-) Extended exigent surcharge
- (-) Presidential Election in the current (114th) Congress
QUESTIONS?
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