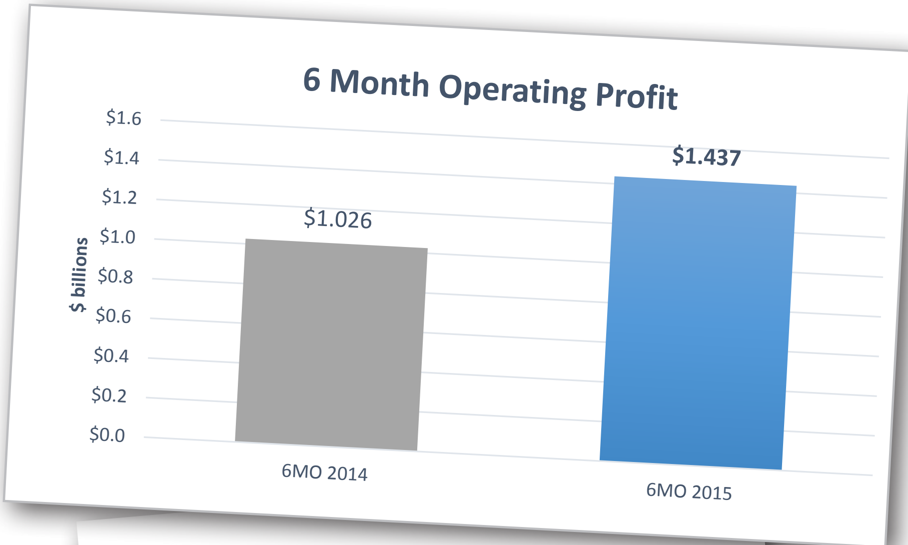
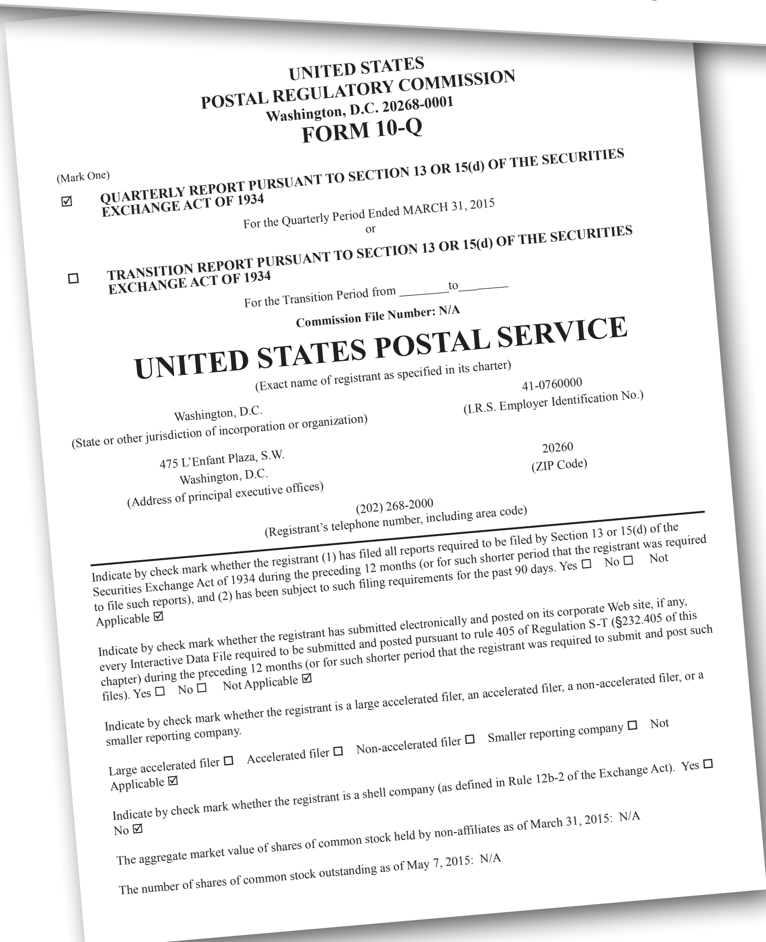
USPS' revenue continues to grow




UNITED STATES
POSTAL REGULATORY COMMISSION
Washington, D.C. 20268-0001
FORM 10-Q

(Mark One)

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended MARCH 31, 2015

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from ________ to ________

Commission File Number: N/A

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

Washington, D.C. — 41-0760000

(State or other jurisdiction of incorporation or organization) — (I.R.S. Employer Identification No.)

475 L'Enfant Plaza, S.W.
Washington, D.C. — 20260

(Address of principal executive offices) — (ZIP Code)

(202) 268-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐ Not Applicable ☑

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐ Not Applicable ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Not Applicable ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of shares of common stock held by non-affiliates as of March 31, 2015: N/A

The number of shares of common stock outstanding as of May 7, 2015: N/A

On Friday, May 8, the U.S. Postal Service released another positive financial report, showing that it had made a $313 million operating profit for the second quarter of Fiscal Year 2015 (covering January–March 2015).

Even more encouraging, for the first half of FY 2015 (covering October 2014–March 2015), USPS had more than $1.4 billion in operating profit—surpassing the profit it had made during the entire previous fiscal year.

"These results show the impressive Postal Service financial turnaround continuing in full force," NALC President Fredric Rolando said in a statement following the report's release.

The operating profit for the three months ending March 31 increased by $52 million—or by 20 percent—over the results for the same period of Fiscal Year 2014. The $1.437 billion USPS made in operating profit for the first half of this fiscal year represented an increase of 40 percent over the results for the same period in the last fiscal year.

"Equally encouraging is what produced the operating profit," Rolando said: "Continuing revenue growth as an improving economy and rising online shopping drive better performances in letter mail and package deliveries."

Package revenue was up a striking 11.2 percent so far this fiscal year, and revenue from first-class letter mail and standard mail also were higher than the same period in the last fiscal year.

Operating profit or loss excludes key items that are unrelated to postal operations. The first is the 2006 mandate that the Postal Service pre-fund the health benefits of future postal retirees by setting aside about $5.5

billion a year over a 10-year period. No other government agency or private enterprise is required by law to pre-fund these benefits.

The second involves the normal non-cash accounting adjustments to workers' compensation. Such adjustments are not payments, but merely ledger adjustments, and they are driven primarily by the ups and downs in market interest rates and by actuarial estimate changes.

"Excluding these items gets us to a picture of what is really going on with the business of selling postage and delivering mail," Rolando said, "and this picture continues to improve."

The Postal Service's fiscal years run from Oct. 1 through Sept. 30, and Rolando noted that the agency is now well into its third consecutive year of operating profits.

"This trend makes it clear that we need to work to strengthen the now-profitable networks, not degrade them," he said. "We hope to work with lawmakers on both sides of the aisle, with the White House and with Postmaster General Megan Brennan to build on the progress toward consensus postal reform that was achieved in the last Congress, within the mailing industry and among major stakeholders—reform that promotes a strong and vibrant Postal Service."

Rolando was quoted prominently in many of the news media articles that covered the report's release. For example, in addition to its positive headline—"Postal Service pushes for reforms as finances improve"—the good-sized *Federal Times* story mentioned rising postal revenues and operating profit before getting to the red ink, which it properly attributed to pre-funding. The president was quoted at greater length than anyone else. The story also noted that Postmaster General Megan Brennan was positive about the results, and it quoted Brennan's description of this quarter's operating profit as "the purest measure of our progress."

The piece in *The Hill* also had a great headline—"Postal revenues bump up in 2015"—followed by a good, lengthy story citing successes before obstacles. Rolando, Brennan and USPS Chief Financial Officer Joseph Corbett were quoted, Rolando more than either.

Government Executive had a solid story, with lots of information high up about profits and increased revenue, along with some good context throughout. It quoted Rolando and Brennan about equally.

The Wall Street Journal's story was fairly thorough and balanced. It included the role of pre-funding in USPS finances, and it cited the agency's operating profit.

NALC's perspective was included in the Associated Press' story. The wire service's piece was carried in many news media outlets across the country, including *The Washington Post* and *The New York Times*. While *The Times* initially ran a version of the story written by the AP, it later replaced that version with one by the Reuters wire service.

Battle over 'Fast Track' continues

As this *Postal Record* was being prepared, the Senate was getting close to a deal to move forward on granting the White House so-called "fast track" authority for the next several years.

Fast Track would enable the United States Trade Representative to negotiate trade and investment deals quietly and would force Congress to give these deals up or down votes—with no opportunity to strike or amend problematic provisions in such trade agreements.

On May 12, Senate Democrats, led by Minority Leader Harry Reid (D-NV), had successfully filibustered debate on the measure. A new deal that was struck the next day, however, had the potential for allowing the full Senate to debate the legislation.

Adding his voice to the labor movement's opposition to Fast Track, President Rolando sent a letter to Congress, calling on lawmakers to ensure "that there is transparency and equity in the trade process."

"Congress must maintain its ability to approve trade partners in advance," Rolando wrote, "to determine whether America's objectives are being met inclusively, and to have the ability to strike or amend from trade deals provisions that fail to incorporate your input."

At issue, Rolando said, is giving President Obama streamlined authority to negotiate the Trans-Pacific Partnership (TPP), a 12-country free-trade deal that would dwarf the 1994 North American Free Trade Agreement (NAFTA).

"Many letter carriers can well recall how NAFTA devastated the American labor force by sending millions of jobs overseas," Rolando said.

Fast Track faced significant opposition in the House of Representatives as well, where it needed to obtain 218 votes for passage. However, dozens of Republicans reportedly had raised concerns about the Obama administration's trade agenda, so the leadership potentially would need to secure the votes of dozens of Democrats to offset any Republican defections by the time the measure reached the House floor. (Republican lawmakers tend to be more supportive of free trade agreements than Democrats.)

"We think the TPP agreement, as it stands today, falls short of what is needed," Rep. Sander Levin (D-MI) wrote in an open letter published by *The Huffington Post*. "And we don't want to give up our leverage by granting 'fast-track' authority until we know that TPP is on the right track."

If approved, the TPP could impose a ban on postal banking in the United States. Even worse, other trade agreements that are up for possible Fast Track approval could pose a direct threat to our jobs and our system of affordable universal service.

The World Trade Organization, for example, is sponsoring the negotiation of a trade-in-services agreement (TISA) among dozens of countries, while the U.S. government is in talks with the European Union on a Trans-Atlantic Trade and Investment Partnership (T-TIP), which would cover our economic interaction with the EU's 27 countries.

In both of these negotiations, the Europeans are calling for the United States to phase out the Postal Service's monopoly on the delivery of letter mail—a policy that the EU already has adopted.

Assuming that both Fast Track measures pass their respective chambers, the next step for the House and Senate bills would be a conference to iron out differences between the bills. To stay on top of these and other developments, make sure you're signed up for the NALC e-Activist Network. Visit nalc.org to learn more.

NALC invited to Sen. Carper's 'roundtable'

NALC Chief of Staff Jim Sauber was invited by Sen. Tom Carper (D-DE) to take part in a recent roundtable discussion about the Postal Service. Carper is the ranking member of the Senate Homeland Security and Governmental Affairs Committee, which has USPS oversight.

Carper described the May 12 meeting as an opportunity to allow postal stakeholders to discuss the various challenges and opportunities that the Postal Service faces and to identify what the agency might need to innovate and thrive.

Sauber told the roundtable that finding smarter ways to invest the retiree health benefit fund should be a priority in any discussion of meaningful postal reform.

"Think about requiring the [Office of Personnel Management] to invest the fund in something more sensible," he said. "Health care costs are growing 5 to 7 percent annually and Treasury securities are yielding 2 to 3 percent."

Sauber said that USPS should be allowed to invest its health care assets in the same low-cost index funds as the federal government's Thrift Savings Plan, such as the Lifecycle 2040 fund, which has earned an annual return of 6.93 percent since its inception in 2005. An analysis by NALC found that by making this switch in investments, the Postal Service Retiree Healthcare Benefit fund's funding percentage would rise from 94 percent to 118 percent in just 10 years.

"There are risks involved, but the fund is so large, the risks are so low, and the horizon is so long that that risk is minimal," Sauber said. "This is a significant policy innovation that would allow us to reduce pressure on raising postage rates and cutting services. And it just makes good business sense."

NALC Chief of Staff Jim Sauber

Also appearing at the roundtable were USPS Acting Chief Marketing and Sales Officer Jim Cochrane, Hallmark President Donald Hall Jr., Deputy Postal Inspector General Tammy Whitcomb, and U.S. Government Accountability Office Director Lori Rectanus.

Act II for Issa?

On April 16, Rep. Darrell Issa (R-CA) introduced H.R. 1837, the Secure Delivery for America Act. It's essentially the same measure that he introduced—unsuccessfully—in the last session of Congress, one that intends to eliminate door-to-door mail delivery or make customers pay to retain it.

One crucial difference, though, is that Issa no longer is the chairman of the House Oversight and Government Reform Committee—the committee with USPS oversight.

"In fact, Issa holds no leadership position in the House," President Rolando said, "but that isn't stopping him from trying to pull his same old stunts by introducing legislation that is counterproductive to maintaining a robust Postal Service."

Rolando said that H.R. 1837, if passed, would place on customers an undue burden of paying a fee for a service that already is paid for by the sender through postage.

Issa's bill includes language allowing for waivers for persons with disabilities, but all others who don't fit those criteria and who choose to retain door delivery—instead of converting to centralized, curbside or sidewalk cluster-box delivery—would be forced to pay a "delivery fee" for door service.

"If the cost of rolling out this program is incumbent upon the Postal Service," Rolando said, "it is doubtful that it would actually save the USPS the initially projected $2 billion."

Worst of all, H.R. 1837 calls for requiring USPS to eliminate door delivery for 15 million addresses over the next 10 years by forcing 1.5 million households and businesses each year to convert from door delivery to curbside or cluster-box delivery.

"While this measure isn't likely to go very far," Rolando said, "it still serves as an important reminder that letter carriers need to remain alert for possible attacks from old foes as well as new ones. And it reminds all of us just how important every election is."

As this magazine was being prepared, there was only one cosponsor of H.R. 1837: Rep. Blake Farenthold (R-TX).

Budget plans move forward—without USPS hits

Following a House and Senate conference to work out the differences between each chamber's Fiscal Year 2016 budget resolutions, the House on April 30 passed the measure by a vote of 226-197.

The House plan originally proposed making cuts to a wide range of programs by instructing every House committee to find savings through budget reconciliation, but conferees ultimately agreed to the Senate's plan, which opted to focus reconciliation on the committees with jurisdiction over the Affordable Care Act.

"This is a minor victory for letter carriers and all federal employees," Rolando said. That's because House and Senate conferees ultimately rejected proposals in the House plan that took aim at federal employees by seeking an addition $318 billion from the federal/postal community. (See story on page 18.)

While this is a bit of good news from the ongoing budget battle, the president said, the agreed-upon levels of cuts continue to be insufficient because sequestration remains in place.

"What that means, then, is that Congress will continue to eye federal and postal employees in its relentless quest to find an estimated $9 billion in savings in 2016," Rolando said, "and nearly $194 billion over the next 10 years."

On May 5, the Senate approved the measure by a vote of 51 to 48. It's important to remember that this budget measure is non-binding; it simply sets a blueprint for Congress as lawmakers continue their appropriations process over the coming weeks and months.

House bill aims to modernize postal fleet

On April 22, Rep. Jared Huffman (D-CA) introduced H.R. 1963, the Federal Leadership in Energy & Efficient Transportation (FLEET) Act. The bill seeks to modernize the Postal Service's fleet of aging Long Life Vehicles (LLVs).

If passed, H.R. 1963 would provide USPS an opportunity to save money while reducing its vehicles' effects on the environment, and it would offer letter carriers a more efficient vehicle that would better accommodate the agency's booming package delivery service.

The FLEET Act was introduced by Huffman with a companion bill for energy efficient schools, in honor of Earth Day.

"Each Earth Day, people across the country and around the world pledge themselves to becoming better stewards of our planet," Huffman said. "By working constructively with these American institutions—public schools and the U.S. Postal Service—we can reduce energy use, modernize our infrastructure, and fight climate change, together."

Fuel accounts for 10 cents out of every dollar spent by the Postal Service, with the agency operating the largest commercial fleet in the world. Most LLVs in service are between 18 and 24 years old, and the current fleet has an average fuel economy of just 10 miles per gallon.

Lowering fuel costs also could free more funds for USPS to spend on increasing customer satisfaction and on investment.

In the news media

President Rolando had a letter to the editor in the May 7 edition of the *Bradenton [FL] Herald*, in which he provided context to the paper's recent news story that the mail-processing plant for the area (near

New York state congressional reception

On April 30, letter carrier activists from the state of New York came to Washington, DC, to lobby their congressional representatives on postal issues. NALC President Fredric Rolando (above) addressed the delegation at a congressional reception that evening at NALC Headquarters. Also attending were (below, clockwise from top l) Reps. Carolyn Maloney (D), Sean Patrick Maloney (D), Chris Gibson (R) and Charles Rangel (D).

Sarasota) would stay open at least through the end of 2015—a win for the local congressman, Rep. Vern Buchanan (R-FL), as well as for the residents who have been fighting this for years. Rolando explained why none of the planned degradation of mail—slowing it, stopping Saturday service or ending door delivery—is necessary and is, in fact, counterproductive.

Rolando had an op-ed in the May 3 *Arizona Daily Star*, the leading news source for Tucson and surrounding parts of southern Arizona. In it, the president supported local leaders in their efforts to prevent the loss of Tucson's mail-processing plant. Rolando also provided a broader picture: This is one of several ways USPS and some lawmakers are seeking to degrade the postal networks even as the USPS is increasingly profitable because of those very networks.

The president also had a commentary piece in Huntington, IN's *Herald-Press*. It ran on April 29. The president was responding to an ideologically driven, hostile commentary that the paper ran earlier.

A lengthy commentary piece by President Rolando ran in the Saturday, April 25, edition of the *East Oregonian*, a paper that serves Umatilla and Morrow counties in northeastern Oregon. In his piece, Rolando explained postal finances and extolled the value of the Postal Service as well as the good deeds of letter carriers.

Rolando had a commentary piece run in the April 23 edition of Salt Lake City's *Deseret News*. The piece responded to the paper's April 17 editorial that called for allowing USPS to reduce service, for example, by ending mail on Saturday (and maybe other days) and by closing postal distribution and processing centers.

And the president had an op-ed piece in the April 22 *Southeast Missourian*, which serves Cape Girardeau, MO, and the state's southeast region. Rolando used a news story that the paper ran on April 15—about the planned closing of a mail processing plant—to explain the actual financial picture at USPS, including the agency's increasing profitability, and he showed why degrading service is the wrong course of action.

Sen. Jerry Moran (R-KS) spoke on Saturday, May 2, at the Kansas State Association of Letter Carriers convention. The speech was covered by Manhattan, KS, radio station KMAN-AM. The senator also reported on his visit in his newsletter, which featured a photo of himself with NALC Executive Vice President Timothy C. O'Malley and KSALC President Emeritus **Rod Holub**.

Carmichael, CA Branch 4494 letter carrier **Scott Gallegos**, an Iraq War Army veteran in his fourth week as a letter carrier and on his first delivery of the morning, risked his life on April 27 by putting himself between a woman (who had apparently been shot) and the alleged assailant, who later engaged in a five-hour standoff with police. Gallegos' story was covered by many news outlets, including KTXL-TV in Sacramento. (See page 20 for more details.)

Retired letter carrier **Carl Bernacky**, a member of Hammond, IN Branch 580, had his letter opposing the Trans-Pacific Partnership trade agreement published in the April 20 *Northwest Indiana Times*. PR