News

News from Washington

NALC presses for sensible pricing as PRC weighs rate changes

In December, the Postal Regulatory Commission (PRC) finished its review of the system used to set postage rates for letter mail and other "market dominant" products delivered by the Postal Service. It found that the system was not working as intended under the 2006 Postal Accountability and Enhancement Act (PAEA).

"We're pleased that the PRC came to this conclusion," NALC President Fredric Rolando said, noting that the agency's judgment agreed with that of NALC, the other postal unions and the Postal Service itself.

"But unfortunately, the replacement system that the PRC has proposed falls far short of what the Postal Service needs," Rolando added.

The PRC's decision

As noted in the January *Postal Record* (available for review at nalc.org), the PRC's report came at the end of its year-long review of the current rate-setting system, during which dozens of USPS stakeholders and customers—including NALC—submitted testimony for the agency's consideration.

The PRC examined USPS's financial situation and found that, while the agency had achieved short-term stability under the current rate-setting system—as evidenced by operating profits from FY2014 through FY2016—the system has failed to ensure medium- or long-term stability.

"Based on the FY 2017 net loss of $2.7 billion, the Postal Service would need additional revenue of $2.7 billion to achieve medium-term stability (i.e., to have total revenue equal to all attributable and institutional costs)," the report stated.

To achieve this level of stability, the PRC is proposing to allow USPS to raise rates by up to 2 percentage points more than the increase in the Consumer Price Index for All Items (CPI) each year—for a period of five years. While the increases wouldn't instantly add $2.7 billion annually, the PRC claims that these percentage increases would secure the Postal Service financially by the fifth year—after which, the PRC would review the system again as provided by law.

For more long-term stability, which would allow the Postal Service to make capital improvements, the PRC has proposed certain efficiency and quality benchmarks that, if met by USPS, would authorize the agency to raise rates by up to 1 additional percentage point above the increase in the general CPI in those years. In other words, the most the Postal Service could raise rates in any one year would be capped at the increase in the generic CPI plus 3 percentage points.

If the plan resulted in greater revenue in the vicinity of $2.7 billion annually—which is far from guaranteed—it certainly would help the cash-strapped Postal Service financially. Unfortunately, the PRC failed to take into account a number of factors, including the continued electronic diversion of mail and the impact of rate increases on mail volume. As a result, NALC has concluded that the PRC's proposal would fail to achieve its intended purpose of securing the USPS's medium- and long-term financial stability.

Flaws in the process

As President Rolando stated in his President's Message in the January issue of *The Postal Record*, there were a number of flaws in the PRC's approach to improving the current rate-setting system. The most significant is the regulator's continued reliance on the general CPI for regulating rates.

"The CPI is simply the weighted average of price changes for thousands of unrelated products and services," Rolando said, "so it should be obvious that this measurement has no real economic meaning when it comes to running a national postal system. A more relevant index, such as the one for "delivery services," would make much more sense because it tracks prices in the private-delivery industry."

The PRC's proposal also fails to properly address pre-funding and other mandates imposed by Congress. Moreover, the design of the efficiency and quality incentives in the proposal are flawed and unlikely to allow USPS to generate profits sufficient to finance long-term investments in its delivery network.

Another serious flaw with the PRC proposal is its failure to reinstate the exigent rate increase that expired in April 2016. The regulator authorized this 4.3 percent rate increase to offset the devastating effects of the Great Recession of 2008-2009, when the Postal Service experienced a sharp decline in letter-mail volume. Given that this drop in mail volume is likely permanent and that the high fixed costs of our universal service obligation remain in place, the exigent increase should have been made permanent.

"To put it bluntly, the rollback in postage prices was a mistake," President Rolando said. "The resulting loss in revenues from this decision should have been addressed by the PRC in its review.

"The rollback has led the Postal Service to resume the self-defeating practice of slashing quality even as it ignores needed investments in our networks."

Finally, NALC is disappointed that the PRC failed to call for a one-time adjustment in postage rates to fully cover all of the USPS's costs—including the unique and unfair burden to pre-fund future retiree health benefits.

Not over yet

On the bright side, there still is time for the PRC to improve its proposal before it comes out with a final ruling. The PRC currently is sponsoring a 120-day comment period on its proposed rate-setting system. NALC will participate in this process and make our views known.

"Assuming we can get the basic rate structure right and make allowances for future congressional mandates, a more suitable price index, such as the CPI for Delivery Services, might be workable," Rolando said. "A sensible rate-setting system is within our grasp—so long as the PRC takes advantage of its second chance to get things right."

In the news media

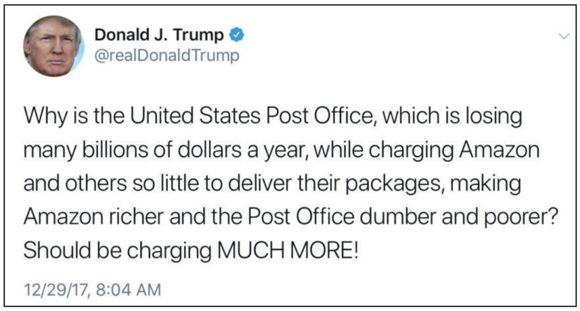
NALC President Fredric Rolando wrote a guest column for *The Hill*, rebutting two *Hill* commentaries that slammed USPS. Rolando's piece, which ran Jan. 9, rebuts both prior pieces and also discusses the broad value of the Postal Service to our country.

In an interview with Federal News Radio on Jan. 8, NALC Chief of Staff Jim Sauber did a skillful job raising a variety of issues: Census Bureau/USPS/letter carriers, pre-funding, Board of Governor vacancies, postal vehicles, Amazon and negotiated service agreements.

Idaho State Association of Letter Carriers President John Paige had letters to the editor published in the *Idaho Press-Tribune*, magicvalley.com and the *Idaho State Journal*, all on Jan. 2. **PR**

NALC comments on White House tweet on the Postal Service

Over the holidays, the president mentioned the Postal Service in the following tweet:


Donald J. Trump
@realDonaldTrump

Why is the United States Post Office, which is losing many billions of dollars a year, while charging Amazon and others so little to deliver their packages, making Amazon richer and the Post Office dumber and poorer? Should be charging MUCH MORE!

12/29/17, 8:04 AM

While it is clear that the intended target was Amazon's founder Jeff Bezos (who is also owner of *The Washington Post*), what is less clear is the reason for the sudden interest in the pricing of packages. It's probably because of recent media attention resulting from a policy campaign by the United Parcel Service (UPS).

For more than 40 years, UPS has been trying relentlessly to force the Postal Service to raise parcel rates. If successful, this effort would essentially drive business away from the Postal Service and result in more volume at higher prices and greater profits for UPS—good for its shareholders, bad for American businesses and households.

Unlike its competitors, the Postal Service already is required, by federal law, to make a profit on every package it delivers—including those for Amazon. Also unlike UPS and FedEx, the Postal Service is required by law to deliver to every address in the country six days a week.

If the president truly wants to make the Postal Service "smarter and richer," he has the power to do so.

He can start by nominating a full slate of competent and qualified candidates to the Postal Service Board of Governors (BOG) and by filling a key vacancy on the Postal Regulatory Commission (PRC). While the vacant BOG is a problem President Trump inherited, as of today he has offered only three nominations for the BOG, even though all nine seats are vacant. Meanwhile, the PRC, which is central to the Postal Service's ability to set postage rates appropriately, is missing its fifth member. Indeed, sensible postal pricing hangs in the balance right now at the PRC as it works to create a new postage rate-setting system.

If the president wants to ultimately raise rates, it can be done only with a functioning Board of Governors and a Postal Regulatory Commission at full strength.

Beyond making these nominations, the most important thing the president can do to make the Postal Service smarter and stronger is to remove the crushing financial burden placed on the Postal Service by the 2006 congressional mandate to pre-fund future retiree health benefits decades in advance, something no other public agency or private company is required to do. This policy change, which President Trump's predecessor did not achieve, has bipartisan support. It would immediately restore the constitutionally mandated Postal Service to financial stability, enabling it to continue to serve 155 million businesses and residences six (and sometimes seven) days a week while continuing to provide the most affordable postal rates in the industrial world. **PR**