

Mailers Hub News

February Summary *From the February 14 and 28 issues*

House Passes “Postal Reform” Bill, Senate Vote Expected

On February 8, the House of Representatives took up HR 3076, the long-awaited *Postal Service Reform Act of 2022*. After the mutual praise and thanks to all were finished, the House approved the measure, first by a voice vote, then by a roll call vote of 342-92, with clear bipartisan support. The bill was then sent to the Senate which placed it on its calendar for consideration. The principal elements of HR 3076 include:

- Eliminating the obligation under PAEA to fully prefund \$55.8 billion in future retiree health care costs through ten successive payments from 2007 through 2016. After making some of the payments, the USPS defaulted on the balance; that amount remains an unpaid debt on the Postal Service’s financial statements.
- Converting payment for retiree health care from prefunding to pay-as-you-go.
- Requiring postal annuitants to fully participate in Medicare. Integrating postal health care programs with Medicare has been a goal of reform advocates as a way to reduce overall USPS costs.

Due to a clerical error, the text of the bill passed by the House differed slightly from what was sent to the Senate, and Senate leadership hoped to correct this quickly by procedural measures. However, when the presiding officer asked if there was any objection to the request for unanimous consent to move the bill forward, Sen. Rick Scott (FL) rose to offer one, based on the bill not having gone through the Senate committee of jurisdiction. This caused the vote on the bill to be delayed to February 28 at the earliest.

USPS Releases PQ I Results

On February 8, the Postal Service filed its *Form 10-Q* with the Postal Regulatory Commission for PQ I of fiscal 2022 (October 1 – December 31, 2021). The three-month period covers the fall mailing and holiday shipping seasons during which the agency should see the highest levels of the annual cycle of volume and revenue. PQ I also is the traditional provider of the financial cushion that will offset slower periods later in the year. For FY 2022, however, PQ I continued downward trends. Aside from the lingering effects the pandemic had on business-related mailing and shipping, the period also lacked the volume boost from election mail that was present a year earlier (i.e., in early FY 2021, preceding the 2020 election).

Market-dominant mail volume, overall, was about 3.7% lower than during the same period last year; as noted, some of this was attributable to election-related mail a year ago. Similarly, but more concerning given the Postal Service’s growing focus on packages, PQ I data showed that the pandemic’s impact on home shopping and, in turn, on package volume has eased. Competitive product volume was 9.67% lower than a year earlier, with decreases in all competitive product categories.

Revenue, usually aligned to volume, actually went up 4.9% for market-dominant mail because of a rate increase implemented in late August. Conversely, competitive product revenue declined 7.0% (as volume dipped), despite a temporary surcharge imposed during the holiday shipping season.

PRC Denies USPS Request to Move Bound Printed Matter Parcels

In a 54-page order issued February 10, the Postal Regulatory Commission denied the Postal Service’s March 26, 2021, request to transfer bound printed matter parcels, now a market-dominant product, to the competitive product list as a category of Parcel Select. If the Postal Service had expected the transfer request to go smoothly that wasn’t what happened. The PRC received 361 comments on the USPS proposal, only two of which supported it. After a lengthy legal analysis of the arguments for and against the transfer, the commission stated its conclusion:

“Having determined that BPM Parcels does not have effective competition within its distinct submarket, the Commission finds that the Postal Service exercises sufficient market power over BPM Parcels to preclude

transfer to the Competitive product list [and] the Commission therefore denies the Postal Service's Request."

Soaring CPI Cap Foretells an Unprecedented Price Increase in July

The January CPI data, released in mid-February by the Bureau of Labor Statistics, 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). 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), a different formula will be used to calculate the applicable cap, based on the February CPI (scheduled for release on March 10).

As of the release of the January CPI, that less-than-12-month cap figure was at 4.474%, and looking at the recent CPI trend does not offer a cheerful outlook for either commercial mail producers or their rate-paying clients. For last August, the added authority for "density" (4.5%) was the major factor in the size of the increase; the CPI cap was 1.501%. Though "density" will be less (0.583%) for the planned July rate increase, the CPI is projected to be three times as large as last May – about 4.512%.

Adding in the other adders for "retirement" (1.071%) and "non-compensatory" (2.0%, only for underwater products), the price hike could be 6.166% (or 8.166% for underwater products), yielding prices for market-dominant mail at the end of July that would be about 13% (or more) higher than a year earlier – hardly an encouragement for more volume.

USPS Affirms its Gas-Powered NGDV Fleet

On February 23, 2021, after a lengthy process that began in 2015, the Postal Service finally awarded a ten-year IDIQ (indefinite delivery, indefinite quantity) contract for up to 165,000 Next Generation Delivery Vehicles to Oshkosh Defense. The contract's total value has been estimated as high as \$11.3 billion, depending on how many NGDVs are built.

While no-one debates the pressing need to replace the Postal Service's fleet of long-life vehicles, some now 35 years old and in constant need of costly maintenance, the agency has been the target of increasing criticism over its decision that only 10% of the new trucks will be electrically-powered. Much of the criticism focuses on the Postal Service's Environmental Impact Statement and how it justifies the use of conventional internal-combustion engines for 90% of the new fleet. Critics also point out that the agency's choice of powerplant is contrary to the president's direction to federal agencies to favor electric over conventionally-powered vehicles.

Whether at a Congressional hearing in February 2021, in a press release, or elsewhere, the PMG has been transparent in his effort to leverage political interest in a more electric fleet to secure Congressional funding. Given that his Plan projects \$160 billion in USPS losses over the decade, he's regularly used the agency's dire finances as an excuse for choosing the less costly fossil-fueled trucks.

USPS Expands "USPS Connect" Market Test, Services

Last November 10, the Postal Service filed a request with the Postal Regulatory Commission to conduct a market test of "USPS Connect Local Mail." That test was approved by the PRC on January 4, 2022, and implemented on January 9. The test began at locations in Texas but was expanded in late February to other post offices, and eventually will be available at other "select locations" nationwide by May 30. In a February 22 press release publicizing the product, the USPS also announced other forms that will also be available:

- **"USPS Connect Regional** provides next-day regional entry and delivery of Parcel Select packages and Parcel Select Lightweight packages. Businesses should consult with USPS representatives to identify the entry points and options that work best for them. Most packages will be delivered the next day within a broad specified region.
- **"USPS Connect National** provides delivery solutions for businesses of all sizes. They can benefit from the Postal Service's new mail processing equipment and reconfigured network to receive reliable delivery of packages through First-Class Package Service, Parcel Select Ground and Retail Ground.

- **“USPS Connect Returns** is a service for businesses to offer their customers convenient returns, with free en-route pickup by their carrier or drop-off at a nearby Post Office location.”

The other three versions of USPS Connect mentioned in the press release are not part of the market test nor are they new USPS products or services. Rather, each is an existing competitive package product already available to customers that’s being rebranded under the USPS Connect banner.

Moreover, customers already can avail themselves of lower than published prices for any of the existing products simply by establishing a negotiated service agreement with the Post-al Service. Though each NSA requires review and approval by the PRC, the framework for NSAs is well-established and the PRC process is seldom problematic.

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