# Mailers Hub News

## September Summary *From the September 11 and 25 issues*

### *PRC Allows Information Request to Proceed*

Likely to the chagrin of Postmaster General Louis DeJoy and his inner circle, the Postal Regulatory Commission has allowed extensive questions to be asked as part of the *Public Inquiry on Changes Associated with the Delivering For America Plan* (Docket No. PI2023-4).

On September 1, by Order No. 6664, the PRC granted a motion filed August 14 by the Greeting Card Association seeking "issuance of an information request regarding certain aspects" of The Plan, specifically "regarding the methods used to develop certain volume projections contained" in it.

The current docket was opened April 20 as a simple "inquiry" about The Plan, and not to render an advisory opinion or rule on any element of it. Nonetheless, the Postal Service didn't appreciate the intrusion or the visibility that the inquiry would provide, stating in a 33-page May 5 motion for reconsideration that the commission's order opening the docket, that the PRC's order

> "... fails to identify a statutory basis that would establish the Commission's authority for this unprecedented level of review and oversight. No such basis was identified because no such basis exists. ... The Commission lacks authority to initiate this Docket."

Despite the agency's indignant objections, the PRC allowed the inquiry to proceed, stating that the USPS opposition was "premature" and adding

> "... The Commission has merely opened a docket, creating a forum to learn more about strategic plan initiatives that may have a significant impact on the postal community. ..."

Though the GCA motion offered a set of questions, it will be the prerogative of the commission's chairman to issue the formal "chairman's information request" containing the precise information the PRC wants – or needs – to pursue its inquiry into The Plan.

As noted previously, the PMG released his 10-Year Plan 30 months ago without any noticeable input or review outside the walls of USPS Headquarters. Since then, the agency has been describing it as simply "a broad guiding vision" not needing PRC review, and has pursued each of The Plan's initiative individually, likely hoping that, if they weren't developed in a way suggesting they're interrelated, then any inquiries could be confined accordingly.

While virtually no-one aware of The Plan – or reading it – would not see its initiatives as connected, GCA's motion was the first to successfully argue that position and, in turn, expose The Plan to the level of transparent overall review that would have been more appropriate in 2021.

In a July 24 interview with *Federal News Network*, DeJoy argued against any review of his Plan: "I do not see how any involvement by the PRC can be helpful – they haven't been in the past." Surely poking the PRC in the eye helped his cause.

### *Legislators Express Concerns Over Price Increases*

Ratepayers and commercial mail producers have long expressed concern over the negative effects of the aggressive price increases being pursued by Postmaster General Louis DeJoy and his supporters on the Board of Governors. If one recent development is any indication, these concerns may finally be motivating similar expressions of concern by legislators.

As reported September 9 by *Keep us Posted*, the bipartisan pair of Reps. Gerry Connolly (VA 11th) and Jake LaTurner (KS 2nd) sent a letter to the USPS Board of Governors asking them to pause rampant postage rate increases – noting that the loss of mail volume is outpacing the projections of the Postmaster General's 10-Year Plan, while the growth of parcel volume predicted by the Plan has yet to materialize. The legislators noted that the Plan

> "... assumes losses in mail volume of more than 40 percent over a 10-year period, but data presented in the hearing record suggests that recent volume loss trends are much greater than projected in the Plan. ... These results suggest that the forecasting models on which the USPS relied do not account for large, successive increases at intervals greater than once per year. The twice-a-year increase schedule imposes additional compliance costs and instability in the market that may not be factored into USPS models … Most importantly, we urge the Board to consider whether a plan that intentionally sacrifices large amounts of mail volume and drives many customers out of the system for short-term revenue gain is in the best long-term interest of the system and consistent with the public service mission of the USPS."

Connolly and LaTurner asked that the Board of Governors provide them, as members of the Committee on Oversight and Accountability, with the following information:

1) Any variance from the Plan projections regarding the amount of mail volume the USPS will lose as a result of its current

rate approach;

2) Any alternatives that would preserve mail volume; and
3) Whether the USPS will seek two additional rate increases in 2024.

The questions the legislators asked are neither new nor unimportant; the mailing industry has been asking for such information for years – without any response from the USPS – and the Postal Regulatory Commission is beginning to show interest in obtaining similar answers.

Ever since The Plan was issued and questions began to arise, the Postal Service has obfuscated, protested, and deflected efforts to examine The Plan's bases, projections, and resulting initiatives, framing it as simply a general outline. Nonetheless, as the agency has implemented elements of The Plan, it's remained resistant to offering details or explanations. Whether the legislators' inquiry will succeed in yielding greater transparency – and solid answers – remains to be seen.

### *USPS Begins Insourcing Transportation Work*

Looking to reduce the Postal Service's use of air transportation, and make feasible slower service for First-Class Mail, Postmaster General Louis DeJoy moved significant quantities of mail onto ground transportation routes for all but the greatest distances. Now, looking for ways to reduce the reliance on contractors for that service, the PMG is beginning to insource USPS transportation. As reported August 28 by Government Executive, the initiative also can result in thousands of jobs moving from the private sector into the ranks of the postal union whose favor the PMG continues to curry.

The USPS began a pilot program in Oklahoma City late last year, insourcing work once performed by contractors and generating 125 postal jobs. Since then, the initiative has expanded to the Richmond (VA) area, including Charlottesville (VA), according to officials involved and public job postings. Expanding the program into the Richmond area coincided with changes to mail transportation related to converting the existing Richmond P&DC into a Regional Processing and Distribution Center and co-located Local Processing Center.

The article noted that, though the Oklahoma City pilot was planned to last at least six months, it's still in effect nine months later. Further suggesting permanency, the USPS has signed a memorandum of understanding with the American Postal Workers Union to create a new job category – postal vehicle operator – as part of the initiative. A USPS spokesperson, said the agency is "currently evaluating other locations for expansion" of the pilot program. Not surprisingly, the agency has offered few details about its long-term plans to stakeholders or the public.

Some observers nonetheless expect that insourcing will be included in those areas where the Postal Service is establishing its RPDC/LPC network. Multichannel Merchant recently reported DeJoy is looking to significantly ramp up transportation insourcing by 2025 – a timeline approximating the pace on which the agency will be activating the RPDCs and LPCs.

The overarching premise of DeJoy's changes to the transportation network seems to have three elements: reducing costs, moving more mail by truck (rather than airplane), and eliminating contracted transportation (by air or truck) as much as possible.

However, though it's estimated that the USPS has saved $1 billion by cutting mail transportation by air by 90% over the last two years – putting 95% of its mail and packages on the ground – it did so at the expense of service. Conversely, changing from outsource to insource ground transportation shouldn't have a service impact but likely will affect costs.

The major beneficiary of insourcing ground transportation would be the APWU, a group that DeJoy has been conspicuously trying to assuage since his Plan was issued. Bringing more mail transportation in-house would boost the ranks of its Postal Vehicle Service craft group, about 9,000 APWU-represented employees who now primarily drive routes of fifty miles or less, such as between local facilities.

For longer-haul routes, Government Executive stated that the USPS has over 1,700 contractors operating primarily on highway contract routes of fifty miles or more. The USPS spends almost $5 billion annually on its HCR contracts, nearly four times as much as for its PVS transportation, and those costs grew 18% between 2017 and 2021 as the driver shortage took hold.

Arguably, if the pool of individuals who have or could hold a commercial driver's license is limited, those individuals' preference for private or USPS employment could arise from different motives. Private sector drivers driving some lanes can make more money than USPS drivers, and have greater latitude in choosing where they drive, but postal-employed drivers would have stable wages and benefits, fixed schedules, and not have to be away from home overnight.

Observers also note that while current HCR drivers would be candidates for hire by the USPS, the pilot includes training programs for its own employees to help them earn a CDL and thus supply the necessary drivers. Naturally, the latter approach is especially appealing to the union, and could offset job losses in other APWU-represented crafts.

The APWU's craft director for motor vehicle services was quoted as claiming that the insourcing pilot "has the potential for the Postal Service to solve some of the challenges in recruiting, hiring, and retaining." He "pledged to continue to 'extol the benefits of having transportation duties performed in house by postal career operators instead of contractors.'"

Given that it's often estimated that clerk craft employees working in mail processing or retail service are more expensive than private sector employees doing similar work, it's unclear whether the move from HCR to PVS drivers will yield the anticipated savings. Moreover, staffing and work assignments for commercial drivers can be adjusted as needed, while USPS staffing and scheduling is largely fixed, meaning that driver complement cannot be easily reduced to match reduced workload, and wages and benefits cannot be adjusted as if they were in a competitive labor market.

Obviously, the biggest negative impact of insourcing would be on existing HCR providers. "It's definitely a cause for concern," an industry official said of the pilot. "It's the first time anything like that had happened, to my knowledge." As Government Executive reported, the USPS had renewed its contracts with impacted vendors just months before launching the insourcing. Oklahoma-based Louis V. Lepak Trucking Company sued the USPS in the US Court of Federal Claims in February, alleging the agency negotiated in bad faith when it renewed the company's contract just before insourcing the work. The company eventually dropped its suit.

For all HCR contractors, the loss of postal work would be a financial blow, but for some those that exist solely to haul mail it could be fatal. Many are worried about their future, particularly if they operate shorter routes or have trucks whose drivers aren't required to hold a CDL. Of course, if the contractor shrinks or fails, its drivers are impacted as well. For DeJoy, who once ran a trucking company, such consequences are not a concern.

### *USPS Rate Authority for October Filing Remains Below 2%*

As the saying goes, every little bit counts. In this case, the "little bit" is the 0.041% below the expected 2% that the Postal Service will have in CPI-based rate authority when it files its next semi-annual price change in October. Based on the applicable formula, the agency's rate authority is 1.959%.

| CPI Month | CPI Change from prev | Annualized authority | Accrued authority | Acc auth change |
|---|---|---|---|---|
| Mar 2023 | +0.996 pts | 7.446% | 0.404% | +0.404 pts |
| Apr 2023 | +1.527 pts | 7.163% | 0.806% | +0.402 pts |
| May 2023 | +0.764 pts | 6.778% | 1.139% | +0.333 pts |
| June 2023 | +0.982 pts | 6.262% | 1.388% | +0.249 pts |
| July 2023 | +0.582 pts | 5.812% | 1.653% | +0.265 pts |
| Aug 2023 | +1.335 pts | 5.431% | 1.959% | +0.306 pts |

The CPI cap calculations use the cost-of-living data released monthly by the Bureau of Labor Statistics about two weeks after the end of each month (e.g., the August CPI was released September 13).

The agency's CPI-based rate authority resets to zero after every price filing, so the size of that authority for a subsequent filing is directly driven by how fast inflation pushes up the monthly CPI. Calculation of the Postal Service's CPI-based rate authority uses one of three formulae: for an increase filed twelve months after a previous filing, or for an increase filed at a longer or shorter interval.

The "annualized" CPI figure is calculated over a rolling twelve-month period and reflects the pricing authority that would be available to the USPS if it were to file a rate change at that point, twelve months after an earlier filing.

Currently, as the USPS has sought price increases every six months, its rate authority still resets after each filing, but the formula for a less-than-twelve-month cycle is used. As with the "annualized" figure, that can be calculated monthly to track growth in the net pricing authority available at any point. In this case, after six months (March through August), the USPS accrued 1.959% of pricing authority since its filing in April 2023 (which had been calculated using the CPI data from September 2022 through February 2023).

Fortunately for ratepayers, the "adders" authorized by the Postal Regulatory Commission in November 2020 will not apply in October. (The "density" adder is related to the loss of volume per delivery stop, and the "retirement" adder funds the Postal Service's amortization of its remaining retirement system (CSRS and FERS) liabilities. The "non-compensatory" adder is for a mail *class* that's not covering its costs, and *must* be used either completely or partially in the first rate filing after the PRC's *Annual Compliance Determination* is issued (which it must be by the end of March).)

The "density" and "retirement" adders, calculated by the USPS after the end of each fiscal year and validated by the PRC, can only be used once annually. The "non-compensatory" adder is a fixed 2%; it currently applies only to Periodicals. For 2023, the adders were used in the April filing.

The Postal Service's "banked" authority is the difference between the authority it had for a preceding filing and what it actually used. The USPS typically leaves a small percentage of rate authority in its "bank." What it left in its "bank" after the April filing is calculated by the PRC.

| Class | CPI | Density | Retire-ment | Non-comp | Bank | Total |
|---|---|---|---|---|---|---|
| First-Class | 1.959% | 0.000% | 0.000% | n/a | 0.011% | 1.970% |
| Marketing | 1.959% | 0.000% | 0.000% | n/a | 0.003% | 1.962% |
| Periodicals | 1.959% | 0.000% | 0.000% | 0.000% | 0.000% | 1.959% |
| Pkg Svcs | 1.959% | 0.000% | 0.000% | n/a | 0.002% | 1.961% |
| Spec Svcs | 1.959% | 0.000% | 0.000% | n/a | 0.210% | 2.169% |

In order to maintain its semi-annual pace, and avoid having to rework its calculations, the USPS will have to submit its price filing to the PRC before the September CPI is released on October 12. Filing on Wednesday, October 11, six months to the day since its April filing, would optimize the time the pricing staff has to prepare and double-check its documents.

If history repeats, the size of the increase the USPS will seek likely will be as large as possible, with the higher prices likely to be implemented in mid-January 2024.

### *OIG Reviews Start-up of First Group of S&DCs*

In an audit report issued September 12, the USPS Office of Inspector General examined the implementation of the Postal Service's first six sort and delivery centers. In *Review of USPS Sorting and Delivery Centers Opened in Quarters 1 and 2 of FY 2023*, the OIG focused on facilities in Athens (GA), Brooklyn (NY), Bryan (TX), Gainesville (FL), Panama City (FL), Utica (NY), and Woburn (MA). As the OIG explained:

> "The objective of this audit was to assess the effectiveness of communications with stakeholders and identify successes, opportunities, and lessons learned during the launch of the new S&DCs. Specifically, we focused on the first six S&DCs opened in November 2022 and February 2023. We also reviewed the first Parcel Distribution Center opened in November 2022."

The OIG report included several findings:

> "Overall, we found the seven locations operated as designed and experienced several successes during opening operations. However, opportunities exist for the Postal Service to improve communication with stakeholders when opening S&DCs. In addition, we found opportunities for improvement in Postal Service operations regarding facility readiness, post office box (PO Box) up-times and SDUS sort programs. ...
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> "**Finding #1: Successes and Lessons Learned at Sorting and Delivery Centers.** We conducted site observations during opening operations at all seven facilities and found overall the facilities operated successfully. During our visits, operations generally met expectations and functioned as designed. ... The [Small Delivery Unit Sorting Machines] were successful in completing sorting operations once the issues with the sort programs were resolved ... Carrier office operations at S&DCs, which consist of sorting working mail and retrieving packages and all other mail in preparation for delivery, went as planned. ... Dock facilities were sufficient to meet the mail transport needs of the S&DC. ...
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> "**Finding #2: Communication With Stakeholders.** Prior to opening the first S&DCs, the Postal Service made efforts to communicate key goals, site selection methodology, and facility operational layouts to internal stakeholders through weekly conference calls, magazine articles, stand-up talks, notification letters, and on-site meetings. ...
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> "However, opportunities exist to improve communication with other external stakeholders. We found Postal Service communication efforts with some external stakeholders did not include sufficient details for S&DC consolidations such as timelines or locations. In addition, information was often provided last minute as the Postal Service was finalizing their list for consolidation. In interviews with representatives from shipping and mailing associations, we found the Postal Service provided limited communication. ...
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> "The S&DC program management office was responsible for providing direction and vision to stakeholders. However, the Postal Service did not directly communicate the direction and vision of the S&DCs to all shippers and mailers. ... The Postal Service did not have a policy establishing protocols to ensure stakeholders were included in communication efforts and were given opportunities to provide feedback and ask questions. ...
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> "**Finding #3: Facility Readiness.** We found the Postal Service did not complete all scheduled improvements before opening the seven facilities. During opening operations, we observed Postal Service employees working around construction projects, such as remodeling of restrooms, breakrooms, and locker rooms; adding double doors to enter and exit the building; completing electric and communication upgrades; and installing cages to secure accountable mail. ...
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> "**Finding #4: Late Post Office Box Up-Times.** We found post offices did not always meet scheduled up-time for PO Box mail following the implementation of S&DCs. During the first week of operations, we found all 25 post offices that consolidated delivery and package operations to the S&DCs did not meet scheduled PO Box up-time. ... In follow-up meetings with post office management in May 2023, we found continued issues with late P.O. Box mail. ... According to Postal Service leadership, they are aware of the issue, and were allowing time after the transition for carriers to adjust to the new process before evaluating if changes were necessary. ...
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> "**Finding #5: Sort Programs on Small Delivery Unit Sorters.** Although we found that SDUS machines generally operated successfully and demonstrated efficiency at sorting packages, we identified issues with sort programs on the initial day(s) of operation at five of the seven locations that resulted in high volumes of rejected packages. Four of the five sites resolved sort program issues during the first week of operations. However, during a follow-up visit to the Brooklyn PDC, four months after opening, we found that facility continued to experience sort program issues.

Accordingly, the OIG offered five recommendations:

- "... develop and implement policy to ensure all future Sorting and Delivery Center plans are consistently and clearly communicated and stakeholders are given the opportunity to report concerns.
- "... develop a plan to ensure restroom, breakroom and locker room construction projects are completed prior to opening Sorting and Delivery Centers, or that there are acceptable alternatives, given the number of employees impacted, and that the alternatives meet all health and safety requirements.
- "... evaluate whether construction projects related to the seven facilities were completed and develop a plan to address all outstanding construction and safety issues.
- "... identify the cause of late Post Office Box up-times and take necessary action to ensure up-times are met. Additionally, develop a plan to mitigate issues with Post Office Box up-times prior to opening future S&DCs.
- "... require documentation be maintained to verify sort programs are updated, loaded, and tested prior to opening new Sorting and Delivery Centers."

The OIG noted that "Management agreed with finding 1 and recommendations 1, 2, 3, and 4; partially agreed with findings 2, 3, 4 and 5; and disagreed with recommendation 5."

In this audit, the OIG focused on the processes involved in implementing the first set of S&DCs, but many observers would urge that a subsequent audit review the cost impact of the S&DC concept overall.

It's intuitive that moving a carrier from an existing delivery unit to an S&DC will require more return travel time to begin delivery. Given the number of routes involved and the cumulative additional travel time, it's reasonable to conclude that the resulting loss of street (delivery) time will be aggregated into new routes served by result in additional carriers.

Given the premise of the Postmaster General's 10-Year Plan that the S&DCs will reduce costs, it would be beneficial for the OIG to examine whether implementation of the first round of S&DCs is proving or disproving that premise. Transportation from plants to DDUs may be reduced, but more carriers driving more miles could easily offset such savings.