Mailers Hub News

August 2024 Summary *From the August 12 and 26 issues*

[August 12] ***USPS Reports Another Loss for PQIII***

On August 8, halfway through the final quarter of Fiscal 2024, the Postal Service filed its *Form 10-Q* for the third quarter (April 1 – June 30), revealing how the agency's situation has changed since the same period the previous year.

UNITED STATES POSTAL SERVICE
STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2024	2023	2024	2023
Revenue:				
Operating revenue	$ 18,764	$ 18,573	$ 60,090	$ 59,374
Other revenue	2	52	8	160
Total revenue	**18,766**	**18,625**	**60,098**	**59,534**
Operating expenses:				
Compensation and benefits	13,265	12,849	40,596	39,828
Retirement benefits	2,603	2,454	7,786	7,381
Workers' compensation	466	(7)	2,231	1,419
Transportation	2,063	2,299	6,732	7,741
Other operating expenses	3,004	2,905	9,146	8,795
Total operating expenses	**21,401**	**20,500**	**66,491**	**65,164**
Loss from operations	**(2,635)**	**(1,875)**	**(6,393)**	**(5,630)**
Interest and investment income	236	247	720	680
Interest expense	(143)	(108)	(409)	(294)
Net loss	**$ (2,542)**	**$ (1,736)**	**$ (6,082)**	**$ (5,244)**

See accompanying notes to the unaudited financial statements.

Despite continuing to increase prices every six months, the Postal Service has not seen anything resembling equivalent additional revenue. Total revenue PQ III/FY 2024 was only 0.76% higher than for the comparable period of FY 2023.

Volume of the two largest classes of market-dominant mail was down 1.69% year-over-year, with their revenue down 2.51%, again suggesting that persistent price hikes are worsening volume loss and generating little incremental revenue.

At this point, the rest of the year may do little to avoid a loss exceeding $8 billion, a far cry from the $1.7 billion surplus forecast in Postmaster General Louis DeJoy's 10-Year Plan.

PQ III did not yield significantly more Shipping and Packages volume and revenue, either, growing by 2.71% and 2.42%, respectively, compared to PQ II of FY 2023. Such increases don't indicate the growth in package business that the PMG's 10-Year Plan projected, and identified as critical to offset the loss of traditional hard-copy mail.

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2024	2023	2024	2023
Operating Revenue:				
First-Class Mail[1]	$ 5,940	$ 5,815	$ 19,258	$ 18,682
Marketing Mail[2]	3,548	3,441	11,329	11,383
Shipping and Packages[3]	7,699	7,517	24,489	23,979
International	320	363	1,122	1,223
Periodicals	228	232	688	697
Other[4]	1,029	1,205	3,204	3,410
Total operating revenue	**$ 18,764**	**$ 18,573**	**$ 60,090**	**$ 59,374**
Volume:				
First-Class Mail[1]	10,486	10,856	34,092	35,427
Marketing Mail[2]	13,499	13,542	42,835	45,573
Shipping and Packages[3]	1,742	1,696	5,491	5,322
International	61	70	229	257
Periodicals	707	767	2,110	2,305
Other[5]	71	72	323	329
Total volume	**26,566**	**27,003**	**85,080**	**89,213**

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2024	2023	2024	2023
Shipping and Packages Revenue:				
Priority Mail Services[1]	$ 1,726	$ 2,878	$ 6,160	$ 9,508
Parcel Services[2]	2,650	2,678	8,118	8,099
USPS Ground Advantage[3]	3,121	—	9,536	—
First-Class Package Services[4]	—	1,763	—	5,708
Package Services	202	198	675	664
Total Shipping and Packages revenue	**$ 7,699**	**$ 7,517**	**$ 24,489**	**$ 23,979**
Shipping and Packages Volume:				
Priority Mail Services[1]	160	270	576	863
Parcel Services[2]	932	920	2,869	2,801
USPS Ground Advantage[3]	556	—	1,724	—
First-Class Package Services[4]	—	412	—	1,332
Package Services	94	94	322	326
Total Shipping and Packages volume	**1,742**	**1,696**	**5,491**	**5,322**

Meanwhile, neither the agency's expenses for the quarter nor the size of its workforce aligned with decreased volume. Compensation costs were 3.26% higher than the same period last year and the Postal Service continued to increase both its workforce (up 1,000, 0.16%) and the proportion of fixed-schedule career employees (83.02% vs 81.59%).

The explanations offered by the USPS included that "revenue growth is constrained by competition, electronic media, laws and regulations restricting the types of products and services we may offer to our customers, the prices we charge them, and the speed with which we can bring new services to market." That aggressive rate hikes, worsening service, and excess spending could be factors wasn't acknowledged.

The USPS added "we continue to be constrained by law, or by contract, from reducing many of our costs" and that "many employee costs, such as compensation and employee health benefit premiums, are subject to contractual arrangements" – labor agreements it has negotiated.

The release of the PQ III numbers followed the earlier meeting of the USPS Board of Governors. Typically, the carefully scripted public session of the meeting and the equally tailored press releases that follow are all designed to demonstrate the governors fervor in support the PMG and his Plan.

The handlers who shelter the governors from outside information usually also inhibit them from expressing unfiltered opinions to the postal media. However, comments from a few of the governors were captured and reported by Federal News Network. Interestingly, though they maintained the official posture of support for the PMG and his Plan, they nonetheless reflected a level of concern that things weren't going as swimmingly as the PMG might want us to believe.

Continuing to blame others, DeJoy was quoted as saying

> "While we are growing revenue and cutting costs at an aggressive rate, it is still not enough to overcome the historic trajectory, the substantial inflation, our difficulties in making changes and the cost of doing so."

Dan Tangherlini, appointed in 2022, was more direct:

> "Operating costs are not falling below our improving revenue, and most importantly, service has not improved at the same rate as price increases. While the board remains committed to the imperatives expressed in the Delivering for America plan to rebuild USPS, infrastructure and systems, I'm concerned about implementation, performance and our ability to maintain customer support for these hard and necessary changes."

Former Deputy PMG Ron Stroman also expressed concern:

> "This transition will be long and complex. Our employees and our customers, our suppliers, and other stakeholders will need to embrace change. But how you implement change matters. … Maintaining great customer service is essential to keeping your customer base. … There remains great demand and need for high-quality mail and package service, particularly in working-class families and small businesses, which are the backbone of America's economy."

While DeJoy continued to claim progress was being made, and the governors maintained their public support for him, they can't hide the numbers for revenue, cost, and service. Whether the governors will tire of PMG's 10-Year Plan delivering more excuses than results remains to be seen.

[August 15] ***OIG White Paper Examines USPS Business Model***

As is widely understood, the charter of the Postal Service has an inherent conflict – a public service expected to operate in a businesslike manner – obligated to pursue conflicting objectives while fully empowered to accomplish neither.

This circumstance was examined in detail in a white paper released August 2 by the USPS Office of Inspector General's Research and Insights Solution Center. The 36-page document, *Business or Public Service? Insights into the Unique Laws and Regulations Applying to the Postal Service*, details the points of similarity and difference between the agency and a comparable private sector enterprise.

Although the Postal Service was established only 53 years ago, the communication world is starkly different now, with hard copy correspondence largely pushed aside by electronic media – a difficult situation for an institution built around messaging methods in use since the nation was founded. As the OIG states in the executive summary:

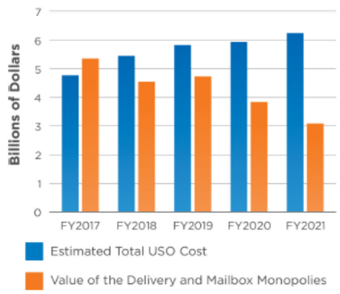
> "While the postal market has undergone significant changes since the Postal Service was established, subsequent legislative reforms – including financial relief in 2022 – have left the general US postal legal framework largely unchanged. The Postal Service still operates under many of the same laws, creating a combination of benefits and restraints. As a result, there has been a recurring debate over whether the 'businesslike' model established by Congress in 1970 is optimally tailored to allow the Postal Service to fulfill its mandated public mission while staying financially viable and competitive as mail volumes decline in today's complex market environment. Since 2016, as part of its Semiannual Reports to Congress, the OIG has highlighted the inherent tension between business and government among the top management challenges facing the Postal Service. …

> "The Postal Service's universal service obligation (USO), historically established through legislative and regulatory framework, mandates the agency to deliver mail six days a week to every address in the United States and provide a minimum level of service at an affordable price. The Postal Service has relative freedom to structure its processing and delivery network to fulfill this mandate while balancing the obligation to be financially self-sufficient. It also maintains letter delivery and mailbox monopolies to help fund the infrastructure and other costs of providing the universal service, for example, to locations that may not otherwise be financially sustainable for a carrier to serve. However, the combined value of the monopolies, as measured by the Postal Regulatory Commission (PRC), has decreased from $4.5 billion in fiscal year (FY) 2018 to $4.2 billion in FY 2022. The costs of providing universal service exceeded the value of the monopolies by $1.8 billion in FY 2022. At the same time, unlike private sector companies, legislation and pricing regulations place a cap on the Postal Service's ability to increase the price of mail products. With declining mail volumes and revenue, covering the costs of universal service is becoming increasingly challenging. …

> "The Postal Service's current legislative agenda does not include specific proposals for significant alterations to the current legislative framework. However, the Postal Service has publicly stated that increasing operating costs and declining mail volumes, combined with the limitations imposed by the current legislative and regulatory environment, continue to put pressure on its ability to efficiently fulfill its public service mission and respond to market challenges. Consequently, the long-term viability of the current US postal model warrants thoughtful examination and consideration."

The opposing trends of the value of the monopolies and the costs of the USO was clearly illustrated:

FIGURE 2: TOTAL COST OF THE USO VS. VALUE OF THE LETTER MAIL DELIVERY AND MAILBOX MONOPOLIES (FYS 2018-2022, IN BILLIONS)



Source: OIG analysis based on PRC Annual Reports to the President and Congress.

The paper also examined the differences between the USPS and private companies in how products, services, and prices are determined and how revenues are generated. It noted that, while private sector businesses can enter and leave lines of business, the Postal Service is confined to activities directly related to its core function of delivering hard-copy mail.

Moreover, the paper noted, private companies can take on debt as they choose by issuing bonds and borrowing on the open market, whereas the USPS must borrow from the Federal Financing Bank up to a $15 billion limit.

Employee pay and benefits differ as well. Postal employees are allowed to unionize but cannot strike; binding arbitration is applied instead to resolve impasses over compensation and benefits. Health benefit and retirement programs for postal employees are overseen by the Office of Personnel Management while private sector companies can select the health and retirement plans they offer employees.

Governance by political appointees, Congressional oversight, limited stakeholder involvement, and operational transparency for the Postal Service is markedly different from the private sector, where directors are appointed by the governing board, regulatory involvement is limited, and little visibility exists into internal matters.

The paper's conclusion was carefully stated:

> "Over the years, the inherent tension between public service obligations and financial sustainability has been intensified by increased operating costs, the substantial liability of health and retirement programs, and declining mail volumes and revenue. This tension raises questions over whether the 'business like' model established by Congress in 1970 is optimally tailored to fulfill its public service mission. …"

It's another matter whether Congress would ever have the fortitude and objectivity to untangle the paradox of the current USPS business model and clearly define its future.

[August 29] ***USPS Proposes to Lower Service Standards – Again***

Though spun to appear as improving service performance, the Postal Service has announced a proposal to further reduce service standards so it can eliminate afternoon collections nationally. The announcement preceded a planned webinar to discuss the proposal in advance of filing for an advisory opinion from the Postal Regulatory Commission. Though the USPS is overtly committed to going through the advisory opinion process, it's well known that the resulting opinion is not binding and that, as has happened with previous opinions, the USPS will implement its plan as intended.

Postmaster General Louis DeJoy, whose already driven other reductions in service standards through previous advisory opinion filings, repeated his well-known allegation that:

> "… our service requirements, facilities infrastructure, business rules and operating practices have continued to reflect a Postal Service designed for three decades ago."

The Postal Service provided an accompanying "fact sheet" that expanded the agency's positive spin on its proposal while offering few specifics. Regarding the reduction of afternoon collection runs, now retitled euphemistically as "regional transportation optimization," the USPS stated:

> "Consolidation of delivery and collection activities: for Post Offices far from regional hubs, pick-up and drop-off of mail will occur primarily in the morning. This consolidation will provide flexibility in our transportation scheduling, bring a significant amount of mail volume into USPS plants sooner to begin processing earlier, and reduce local transportation costs, carbon emissions, and truck trips through American neighborhoods."

It also claimed, without explanation, that some mail will actually get better service:

> "We will expand our reach in the transportation network, which enables mail and packages to travel further within a day between our processing plants, thereby improving service expectations. For example, a piece of First-Class Mail that is currently traveling 22 hours through the transportation network, has a 4-day service standard. In the future, 22 hours of network travel time will have a 3-day service standard."

The proposal about "optimization" of collections epitomizes DeJoy's fixation on "efficiency" at the expense of service. Essentially, his proposal defines mail from ratepayers served by post offices more than fifty miles from the Regional Processing and Delivery Center as not qualified for the same service available to customers of closer post offices; an afternoon collection run to those distant offices isn't "efficient."

However, in another creative move, DeJoy obscures the decrease in service by reframing how the deferred mail would move. By arguing that it would get into the mailstream "earlier" (i.e., in the morning) than if it had been in that afternoon's collection, he overlooks that – absent the more "efficient" collection regime – that mail would have been in the mailstream the previous day – when it was actually mailed. In turn, by redefining the day of mailing, he can continue to claim the mail gets the same service.

Despite the obvious, the USPS "fact sheet" states:

> "Overall, more mail will move quicker than before, and the vast majority of mail will keep the same service standard. While some end-to-end products may experience an additional day, the efficiency of the new network is expected to advance much of this volume. Additionally, no First-Class Mail will be delivered later than 5 days within the continental United States. … These changes are designed to save costs, maintain or improve service levels for most mail and packages, and allow for volume advancement whenever possible. …"

As for service for those offices losing their afternoon collections, the USPS glosses over the issue in its "fact sheet":

> "**How will these changes affect rural areas?** USPS will maintain its commitment to universal service, ensuring reliable delivery to all communities regardless of distance."

In an interview with *The Washington Post*, DeJoy admitted his proposal would result in different levels of service, stating "customers within 50 miles of the Postal Service's largest processing facilities [will get] faster delivery service." Justifying this as another necessary step in his Plan to fix problems he says he inherited from his predecessors, DeJoy added:

> "At the end of the day, I think some portion of the mail showing up 12 hours later, I think it's a price that had to be paid for letting this place be neglected. You look around every other country, [delivery] is longer, it's much more expensive. We're trying to save the Postal Service – not figuratively, not to advocate for something. We're trying to literally save the Postal Service."

How members of Congress will react to this isn't yet known, but DeJoy was characteristically dismissive of whatever response they might have. As the *Post* reported:

> "DeJoy in an interview shot back that lawmakers were 'out of their league' with their critiques of the agency. "They don't understand the business. Nobody knows what it takes to compete with FedEx and UPS and drives billions of dollars of cost out of here that's in the critique business. Even though it's Congress, they don't know,' DeJoy said."

DeJoy obviously did not see any irony in his comments. He's barely any more educated about "the business" now than he was in 2020, and even at that he likely knows only what his inner circle of sycophants wants him to know. More worrisome, it's his perspective that informs the USPS governors in their decision-making on matters like filings with the PRC.

The Postal Service offers no explanation for how actual service performance will improve by deferring the collection of some mail or expanding its more "efficient" ground transportation network.

In its 2021 filing to reduce service standards for First-Class Mail and some Periodicals, the USPS claimed that the standards then in place were "unattainable" and so, without any efforts to improve operational discipline, declared they had to be changed. (We now know that part of the motive for the reduction was to allow greater use of ground transportation, the mode favored by PMG DeJoy.)

Apparently, even with the use of more ground transportation, the relaxed service standards are still unachievable so, rather than finding ways to make his network perform better, DeJoy wants ratepayers to again accept slower service:

> "All First-Class Mail and USPS Ground Advantage will continue being delivered within 5 days."

In effect, mail that may now be receiving better than 5-day service could be delivered more slowly and still be within DeJoy's commitment. Presumably, ratepayers would be consoled because the reduced service is more "efficient."

The Postal Service has scheduled a pre-filing webinar on September 5 to provide more details and receive input from participants; preregistration is required. All commercial mail producers and their clients have a reason to do so; the registration link is https://usps.zoomgov.com/webinar/register/WN_Z3Xd09nNR1uf20GyKfRKnQ. Registration closes September 3 or when capacity is reached.

After digesting the input it receives – though likely without making substantive changes – the Postal Service would make its formal filing with the PRC. In turn, the commission would establish a procedural schedule including for notices of intervention; submission of comments, interrogatories, and responses; and other steps. Barring any extension, the PRC must issue its opinion no later than 90 days after the USPS filing, making the agency's guarantee somewhat pointless:

> "The Postal Service would not implement the proposed service standard changes any sooner than 90 days after a request for an advisory opinion is filed with the Commission (which would occur following the pre-filing conference), meaning any implementation of the proposed service standards would not occur until the next calendar year."

If history is any guide, the USPS will disregard the PRC's opinion entirely and do what it plans to do anyway.

[August 29] ***Union Expresses Opposition to Service Proposal***

It's not often that ratepayers and a postal union can find common ground, but the Postal Service's proposal to again reduce service standards has provided one.

The example was an August 23 statement by Mark Dimondstein, president of the American Postal Workers Union:

> "The American Postal Workers Union is deeply concerned regarding the August 22nd announcement from postal management, with the support of the Postal Board of Governors, that they are once again planning to slow down much of the country's mail.
>
> "The APWU understands that change is needed to address the profound and permanent changes that the internet and social media have caused in the way people communicate. Letters continue to significantly decline, and the Postal Service must gain more of the growing package market. While we remain open to change for the long run viability of the public postal service and our job security, we refuse to accept that a winning strategy includes further slowing first-class mail and providing overall worse service to the people of the country.
>
> "Management is already failing to meet the current first-class mail service standards even after lowering delivery targets in 2021. Rather than fix the service delays and problems, these new management proposals are to simply 'move the goalposts.'
>
> "The proposed service standard changes announced on August 22nd will be reviewed by the Postal Regulatory Commission (PRC). As we saw in 2021, the PRC issues only an Advisory Opinion on the proposals and ultimately lacks the power to stop them outright. We urge the Commission to do a thorough analysis of the impacts of the proposed changes, and for the Postal Service to seriously consider the PRC's views before it proceeds in further degrading service. But make no mistake: our union and postal workers across the country will join with the public, leaders in Congress, and others, in rejecting this proposal and instead favor plans to bring mail service back to the high standard the public deserves and is promised under the law.
>
> "We demand a solution from the Postmaster General and the Board of Governors that fixes service delays, rather than further slowing the service standards for delivery. Management has the tools to improve service while at the same time improve the Postal Service's finances. In addition to the growing package market, they need to focus on new and expanded services. Management can improve staffing and retention by working with the postal unions to ensure every postal job is a good job – with fair pay, decent benefits, and career opportunities. Instead of slowing service standards and accepting bad performance, management needs to put every effort behind improving all forms of mail service and regaining the public's confidence that the Postal Service is in fact 'Delivering for America.' The people of the country deserve nothing less."

While, as a labor union executive, Dimondstein maintains the usual interest in jobs, pay, and benefits, he also acknowledges the Postal Service's changing business environment. However, his alignment with the service interests of ratepayers and the commercial mail producers who support them is what's significant in two ways.

First, he notes that current service performance is not what was assured in 2021 when the Postal Service lowered what it claimed were "unattainable" targets. The solution then, as he notes, is being proposed again: simply "move the goalposts" rather than fix the underlying problems.

Secondly, Dimondstein correctly lays the circumstance at the feet of management. Though Postmaster General Louis DeJoy criticizes his predecessors, he's failed to meet their service performance. In turn, as Dimondstein notes, instead of lowering standards again, management should fix what's wrong in the current system.

Union and ratepayer interests may diverge on other issues in the future but, on this matter, there's rare agreement.

[August 29] ***July Financials: Temporary Black Numbers***

The calendar liked the Postal Service in July: counting delivery and retail days, it was longer than both last month and July 2023. This circumstance helped the revenue and volume numbers visit black ink, likely temporarily, but year-to-date figures remained mostly red.

Market-dominant mail volume was 5.4% above July 2023, while competitive product volume was up 4.8%.

Total revenue was 0.6% higher than plan and 6.9% more than July 2023, and but total operating expenses were 4.4% over plan and 12.6% higher that last July, resulting in a net loss of $997 million for the month. This pushed the net loss for the year-to-date of $6.394 billion, keeping the agency on track for an annual loss of about $8.5 billion.

Volume and revenue

First-Class Mail: 3.573 bln pcs, +0.8%; 37.665 bln pcs, -3.4% YTD
Marketing Mail: 4.582 bln pcs, +4.1%; 47.431 bln pcs, -4.7% YTD
Periodicals: 255.1 mln pcs, +4.1%; 2.335 bln pcs, -7.4% YTD
Total Mkt Dom: 8.436 bln pcs, +5.4%; 88.133 bln pcs, -4.2% YTD
Total Competitive: 571.1 mln pcs, +4.8%; 5.726 bln pcs, +3.7% YTD
Total USPS: 9.027 bln pcs, +5.3%; 94.107 bln pcs, -3.8% YTD

Despite price increases on market-dominant mail totaling over 7.75% since July 2023, year-to-date market-dominant mail revenue was only 1.7% higher.

USPS operating revenue for the month was $6.535 billion:

First-Class Mail: $2.081 bln, +5.5%; $21.338 bln, +3.3% YTD
Marketing Mail: $1.238 bln, +12.6%; $12.615 bln, +0.7% YTD
Periodicals: $74.221 mln, +11.2%; $749.2 mln, +2.4% YTD
Total Mkt Dominant: $3.711 bln, +8.7%; $37.790 bln, +1.7% YTD
Total Competitive: $2.715 bln, +4.9%; $27.603 bln, +2.3% YTD
Total USPS: $6.535 bln, +6.9%; $66.624 bln, +1.7% YTD

Total "controllable" compensation and benefit costs in July were $5.057 billion, 0.8% over plan and 7.2% higher than July 2023; total expenses were $7.613 billion, 4.4% over plan and 12.8% higher than a year earlier.

Workhour usage was 2.2% over plan and 4.4% higher than July 2023, led by a jump of 6.7% for city carriers and 9.3% for rural carriers. Total workhours for the year-to-date were 1.2% over plan and only 0.5% below SPLY YTD. Again, despite less mail, the USPS workforce is larger, and with *more* career employees.

Month's end complement: 640,083 employees (532,529 career, 107,554 non-career) **+0.14%** compared to July 2023 (639,158 employees: 523,635 career, 115,523 non-career), but **1.7% more** *career* workers.

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