



Mailers Hub

*Bringing Commercial Mailing,
Resources, and Solutions Together*



GREATER BALTIMORE POSTAL CUSTOMER COUNCIL

It's the New Year

(Fiscal, that is)

Baltimore Postal Customer Council

Webinar

October 10, 2019

What's making news

- USPS finances
- Service
- USPS actions
- PRC actions
- Legislative actions
- External factors



USPS finances (FY2019 through August)

- Revenue and expense
 - Total revenue: \$65.667 billion (-1.0% to plan, +0.7% to SPLY)
 - Total operating expenses: \$73.797 billion (+2.5% to plan, +6.9% to SPLY) (including OWCP adjustment, retirement and prefunding payment)
 - Net income/loss: -\$8.214 billion (SPLY: -\$3.940 billion)
- Volume
 - Total: 125.40 billion pieces (-0.5% to plan, -2.7% to SPLY)
 - First-Class Mail: 50.83 billion pieces (-3.2% to SPLY)
 - USPS Marketing (Standard) Mail: 69.44 billion pieces (-2.1% to SPLY)
 - Periodicals: 4.27 billion pieces (-7.3% to SPLY)
 - Shipping & Package Services: 5.09 billion pieces (+0.8% to SPLY)
- Trends
 - Continuing diversion, especially in retail First-Class Mail
 - Persistent fixed costs (network, retail, delivery)
 - Weakening growth in competitive products

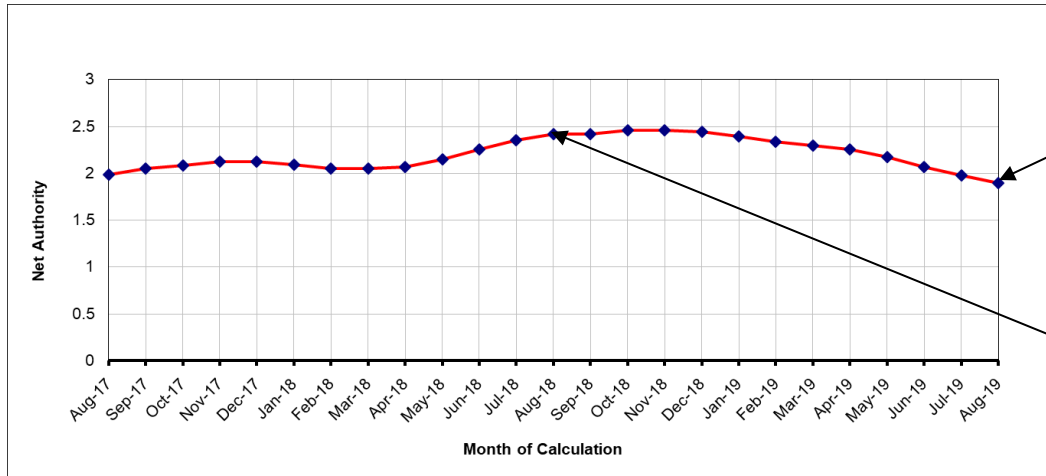


USPS finances: 2019 Financial Plan

- Revenue and expense
 - Operating revenue: \$72.1 billion [**\$65.667 billion YTD, -1.0%**]
 - Total operating expenses: \$75.2 billion [**\$73.797 billion YTD, +2.5%**] (including OWCP adjustment, retirement and prefunding payment)
 - Net income/loss: **-\$6.6 billion** [**-\$8.214 billion YTD**]
- Volume
 - Total: 143.7 billion pieces (**-1.8%**) [**125.4B YTD, -2.7%**]
 - First-Class Mail: 54.3 billion pieces (**-4.3%**) [**50.83B YTD, -3.2%**]
 - USPS Marketing (Standard) Mail: 77.2 billion pcs (**-0.13%**) [**69.44B YTD, -2.1%**]
 - Periodicals: 4.7 billion pieces (**-6.0%**) [**4.27B YTD, -7.3%**]
 - Shipping & Package Services: 6.3 billion pcs (**+3.1%**) [**5.09B YTD, +0.8%**]
- “Unless there is a fundamental change in our financial condition, we will not have sufficient liquidity to pay down debt, fully fund retirement and RH obligations, and invest in equipment and technologies to fulfill our statutory mission. ... Many of the structural reforms needed to ensure long-term viability ... can only be achieved with legislative change to our unsustainable business model and a successful outcome from the PRC 10-year pricing system review.”



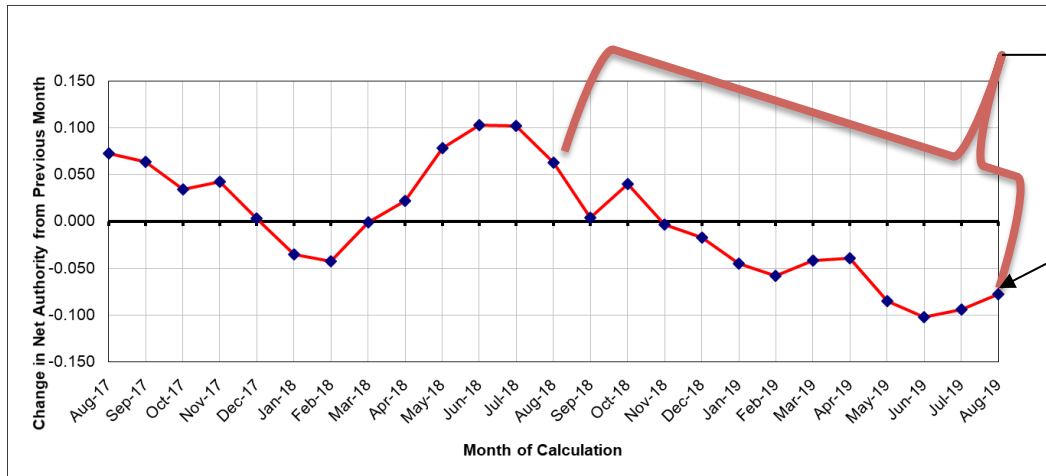
USPS finances: CPI and the Cap



1.900%

Rolling 12-month
CPI average
Sept 2018-Aug 2019

August 2018
CPI used for rate filing
(2.419%)



-0.519 points Aug-Aug

-0.078 points

Month-over-month
rate of change
July 2019-
Aug 2019



USPS finances: Price change filing

- Market-dominant price change proposal filed October 9
 - Average 1.9% increase
 - PRC will review for statutory compliance and approve or remand

Class	Requested Change (%)
First-Class Mail	1.919
USPS Marketing (Standard) Mail	1.891
Periodicals	1.900
Package Services	1.892
Special Services	1.905

- Competitive product price changes published October 9
 - Set by Governors
 - PRC reviews to ensure statutory requirements are met
- Decisions expected by mid-November
- Implementation planned for January 26, 2020



Service: Measurement

- PRC approved July 5
 - Effective October 1, 2018 (FY 2019)
 - EXFC contract terminated
- Major changes
 - Measurement will be based on in-process scans
 - Limited use of sampling
 - All classes will be in measurement
 - Processes for including first mile and last mile impact
- Reliant on scannable mail
 - IMB pieces are eligible for measurement
 - Mailer production of IMB mail is emphasized



Service: Scores

	First-Class Mail						Standard Mail						Periodicals	
Targets >	96.80% overnight, 96.50% 2-day, and 95.25% 3- to 5-day						91.00% for both SCF- and NDC-entered mail						91.00%	
	Quarter			Year-to-Date			Quarter			Year-to-Date			Quarter	Yr/Date
	Overnight	2-Day	3-to-5 day	Overnight	2-Day	3-to-5 day	Overall Letters	Overall Flats	Overall Cr. Rte.	Overall Letters	Overall Flats	Overall Cr. Rte.	Combined	Combined
PQ I/16	95.8	94.2	89.0	95.8	94.2	89.0	87.1	74.5	76.1	87.1	74.5	76.1	74.1	74.1
PQ II/16	96.0	94.4	89.8	95.9	94.3	89.4	88.0	79.7	84.2	87.5	76.6	79.2	78.5	76.3
PQ III/16	96.9	96.3	94.4	96.2	94.9	91.0	92.6	89.7	90.6	89.2	79.2	82.2	83.3	78.6
PQ IV/16	96.8	96.2	94.5	96.3	95.2	91.9	93.0	87.2	90.6	90.1	81.4	83.9	83.7	80.1
PQ I/17	96.2	94.9	92.0	96.2	94.9	92.0	90.2	77.4	89.6	90.2	77.4	89.6	81.5	81.5
PQ II/17	96.6	95.5	92.9	96.4	95.2	92.5	96.4	81.8	91.4	90.9	79.4	90.3	85.4	83.4
PQ III/17	97.1	96.5	94.7	96.6	95.6	93.2	93.3	82.7	93.2	91.7	80.2	91.2	87.7	84.9
PQ IV/17	96.8	96.2	93.9	96.6	95.8	93.4	92.2	81.1	91.9	91.8	80.4	91.4	86.7	85.3
PQ I/18	95.7	94.2	90.9	95.7	94.2	90.9	86.5	71.4	83.5	86.5	71.4	83.5	82.1	82.1
PQ II/18	95.8	94.1	89.9	95.7	94.1	90.4	86.6	70.3	89.1	86.5	71.0	85.9	83.4	82.6
PQ III/18	96.8	96.2	94.2	96.1	94.8	91.6	92.2	81.6	94.2	88.4	74.1	88.2	88.3	84.5
PQ IV/18	96.6	96.1	94.0	96.2	95.1	92.2	92.4	83.0	94.1	89.4	76.5	89.5	88.0	85.0
PQ I/19	94.9	93.0	90.1	94.9	93.0	90.1	85.2	71.8	84.2	85.2	71.8	84.2	81.8	81.8
PQ II/19	95.0	93.5	90.6	95.0	93.2	90.4	88.5	77.0	91.1	86.8	74.3	87.3	84.9	83.2
PQ III/19	96.5	95.4	93.8	95.4	93.9	91.4	91.4	80.7	93.1	88.3	76.2	89.0	87.6	84.7



USPS actions: Seamless Acceptance

- Seamless acceptance not currently required
- Plan for phase-in of required use
 - Seamless would be required for mailers with a DMU *or* entering 90% Full-Service at a BMEU
 - Seamless parallel by March 2020
 - Complete transition to seamless by February 2021
 - End of manual verification by July 2021
- Proposed rule expected this month
 - 30-day comment period
 - Fixed dates may be replaced with intervals after issuance of final rule



USPS actions: New Product Test

- “Plus One”
 - Filed with PRC August 13
 - Similar to detached address label
 - For use with automation saturation letters
 - Required DSCF entry
 - IMB required on card and host piece
- Approved by PRC September 20
- Four different prices will be tested regionally
- PRC will review proposal to ensure cost coverage
- Test to begin October 1, planned to run for two years



USPS actions: Ten-Year Plan

- Promised to Congress in April
- Some draft contents leaked after June Congressional briefing
 - Reduce future employee pay and benefits
 - Increased employee contribution to retirement plans
 - Phased replacement with defined-contribution plan
 - Restructure annual/sick leave
 - Required enrollment in Medicare
 - Shift to more flexible-schedule, fewer career workers
 - Resumed network realignment
 - Five-day delivery of letters and flats
- Resistance already from Congress, labor unions
- Release of plan deferred until new governors can review
- Plan does not seek definition of Universal Service Obligation



PRC actions: Ratesetting Review

- PAEA (2006 postal reform law) requires the PRC to examine the ratesetting process in 2016

“Ten years after the date of enactment of the Postal Accountability and Enhancement Act and as appropriate thereafter, the Commission shall review the system for regulating rates and classes for market-dominant products established under this section to determine **if the system is achieving the objectives** in subsection (b), taking into account the factors in subsection (c). If the Commission determines, after notice and opportunity for public comment, that the system is not achieving the objectives in subsection (b), taking into account the factors in subsection (c), **the Commission may, by regulation, make such modification or adopt such alternative system for regulating rates and classes for market-dominant products as necessary to achieve the objectives.**”

- PAEA included imposition of \$55.8 billion prefunding requirement
- Review began in December 20, 2016
- Final report issued December 1, 2017



PRC actions: Ratesetting Review

- Proposed rule to change ratesetting process
 - CPI cap retained
 - Allow additional 2% rate authority above the CPI cap
 - Allow additional 1% rate authority for performance
 - Allow additional 2% rate authority for “non-compensatory products”
 - Establish “bands” for workshare discounts
- Proposed rule timeline
 - Published in the *Federal Register* December 11, 2017
 - PRC decision: ?
 - Implementation: ?
- Criticism in trade publications
- Potential for legal challenge
 - PRC authority under PAEA
 - Impact on “non-compensatory” classes



PRC actions: First-Class Rates

- USPS proposed rates for First-Class Mail
 - Included in market-dominant price change filing October 10, 2018
 - Minor increase in rates for commercial First-Class Mail
 - 10% increase in retail (stamp) price, to \$0.55
 - USPS justified as simplifying rate structure, customer convenience
- PRC approved USPS proposed rates as filed November 13, 2018
 - PRC echoed USPS justification for \$0.55 stamp
 - Rates implemented January 27, 2019
- Douglas Carlson sues PRC in federal court December 11, 2018
 - Argued PRC failed to consider PAEA objectives and factors
 - Disputed justifications for \$0.55 stamp
- Court rules in favor of Carlson September 13, 2019
 - PRC failed to consider comments, objectives and factors of PAEA
 - PRC conclusion wasn't "reasoned decisionmaking"
 - Vacated PRC order regarding First-Class Mail prices, remanded case



Legislative actions: Governors

- Senate confirmed two in 2018, three in 2019
 - Robert Duncan, banker (Term expires 12/8/2018)
 - David Williams, former USPS OIG (Term expires 12/8/2019)
 - John Barger, lawyer (Term expiring 12/8/2021)
 - Ron Bloom, investment banker (Term expiring 12/8/2020)
 - Roman Martinez IV, financier (Term expiring 12/8/2024)
- No nominees for remaining four vacancies
- Temporary Emergency Committee
 - Delegated in 2014 to perform Board duties until quorum is restored
 - Only PMG and Deputy for 14 months
 - Only appointed governors can act on rate filing, other critical issues
 - Duties returned to Board when quorum restored



Legislative (in)actions: Postal Reform Bills

- No action taken on bills filed during 115th Congress
- No broad-based reform legislation filed in 116th Congress
 - Over 40 post office naming bills
 - Over 40 “expressing the sense” resolutions
 - HR 2158 – prohibit converting modes of delivery
 - HR 2337 – require USPS to buy energy-efficient vehicles (no funding)
 - HR 2382 – repeal prefunding of future retiree health costs
 - HR 2517 – repeal ban on shipping alcohol by mail
- Speculation that measures may be filed in late 2019
 - Sen. Johnson (despite being on the committee since 2011): “Since becoming Chairman of this Committee, I have worked to gather information and define problems before advancing solutions. The financial crisis facing the United States Postal Service is a vexing one, and one that few truly understand.”



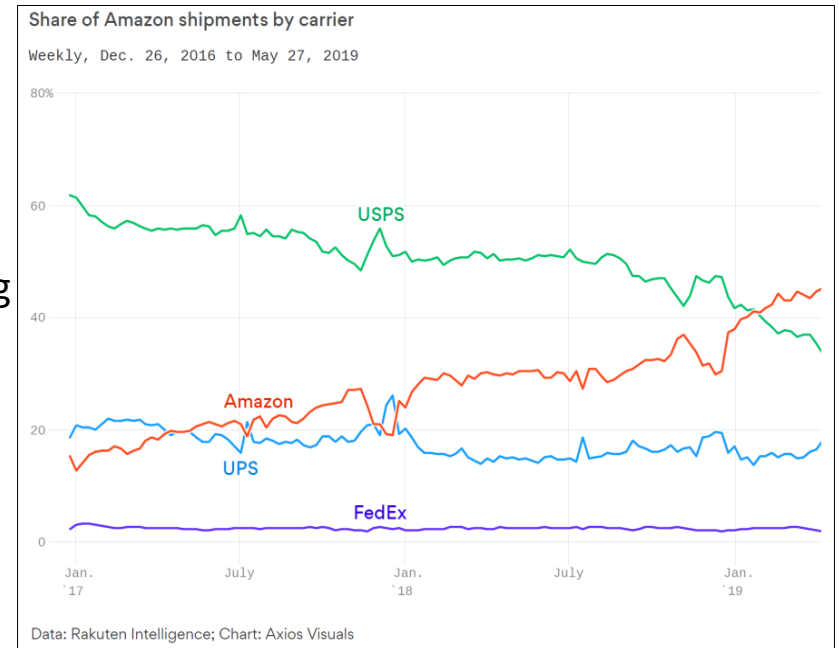
Legislative (in)actions: White House measures

- Task Force on USPS established by Executive Order April 12
 - Evaluate operations and finances of USPS
 - Review definition of “universal service”
 - Examine USPS business model
 - Report due August 10
 - Released December 4
- Government Reform proposal
 - Released by White House June 21
 - Return USPS to a “sustainable business model **or** prepare it for conversion from a government agency to a private corporation”
 - Remove the USPS from Congressional mandates
 - Current model is “unsustainable”
 - USPS is mandated to “operate like a business” but with “the expenses and oversight of a public agency
 - Relationship to Task Force report unclear



External factors: Competition

- Amazon
 - Ground fleet of leased trailers, 20,000 delivery vans, 2,200 two-ton trucks
 - Aircraft fleet more than 50 767s, 737s and growing
 - Building air hub at Cincinnati/Northern Kentucky International Airport
 - Testing drone delivery in UK
 - Expanding into freight trucking
 - Delivering about 48% of its own volume
- eBay
 - Introducing “Managed Delivery” in 2020
 - Warehousing/fulfillment, branded packaging
- FedEx
 - Will begin seven-day delivery in January
 - Has ended contracts with Amazon
- UPS
 - Will have USPS deliver parcels on Sunday
 - Carries about 19% of Amazon volume



External factors: State tax laws

- Overturns *Quill* case
 - Prior decision that required “nexus” (physical presence in a state) for that state to tax an entity’s business activity in that state
 - States wishing to tax on-line commerce fought to overturn
- New situation
 - “Nexus” no longer necessary
 - Remote sellers may be subject to tax
 - Business activity threshold for tax liability unclear
- Problems for mailing companies
 - State laws are not consistent
 - Uncertainty following Supreme Court ruling
 - May result in changes to use taxes, taxes on services
 - Recommendation: consult with a competent tax attorney



External factors: Privacy laws

- Europe's General Data Protection Regulation
 - Effective May 2018
 - Governs the use and protection of information about an EU individual
 - Impacts mail sent to addressees in the EU
 - Assigns specific responsibilities to US data managers/processors
 - Penalties for non-compliance
- California AB375
 - Inspired by GDPR
 - Enacted June 28, 2018
 - Regulates the confidentiality and use of personal information
 - Gives individuals rights over the use of their personal information
 - Companies in compliance with GDPR may comply with CA law as well



External factors: International Mail

- International mail regulated by the Universal Postal Union
 - Classifications, forms and documents
 - Payments for inward handling (“terminal dues”)
 - Current payments to USPS do not cover costs
- Presidential declaration
 - October 2018 letter to UPU
 - US will withdraw unless changes to terminal dues system are made
 - US will establish self-declared rates
- USPS began preparations
 - Establishing a rate framework
 - Drafting separate agreements with some of the 191 other countries
 - Seeking outside providers for international shipments
- UPU reaches agreement on September 25





Mailers Hub

*Bringing Commercial Mailing,
Resources, and Solutions Together*



GREATER BALTIMORE POSTAL CUSTOMER COUNCIL

Questions