

# Mailers Hub

*Bringing Commercial Mailing,  
Resources, and Solutions Together*

## Postal Update

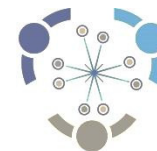
MFSA Southwest Meeting

April 8, 2017



# USPS Finances (February 2017)

- Revenue and expense
  - Controllable operating revenue: \$5.37 billion (-2.8% to plan, -7.1% to SPLY)
  - Controllable operating expenses: \$5.38 billion (+0.2 to plan, -2.8 YTD) (excluding OWCP adjustment, prefunding payment)
  - Controllable operating income/loss: **-\$10 million**
  - Net income/loss: **-\$262 million**
- Volume
  - Total: 11.42 billion pieces (-3.3% to plan, -8.6% to SPLY)
  - First-Class Mail: 4.65 billion pieces (-7.6% to SPLY)
  - Standard Mail: 5.83 billion pieces (-10.4% to SPLY)
  - Periodicals: 428.8 million pieces (-8.2% to SPLY)
  - Shipping & Package Services: 418.6 million pieces (+7.2% to SPLY)
- Complement
  - Career: 507,644 (+2.1%)
  - Non-career: 136,738 (+2.3%)

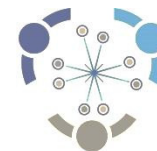


**Mailers Hub**

Bringing Commercial Mailing,  
Resources, and Solutions Together

# USPS Finances (FY 2017 to Date)

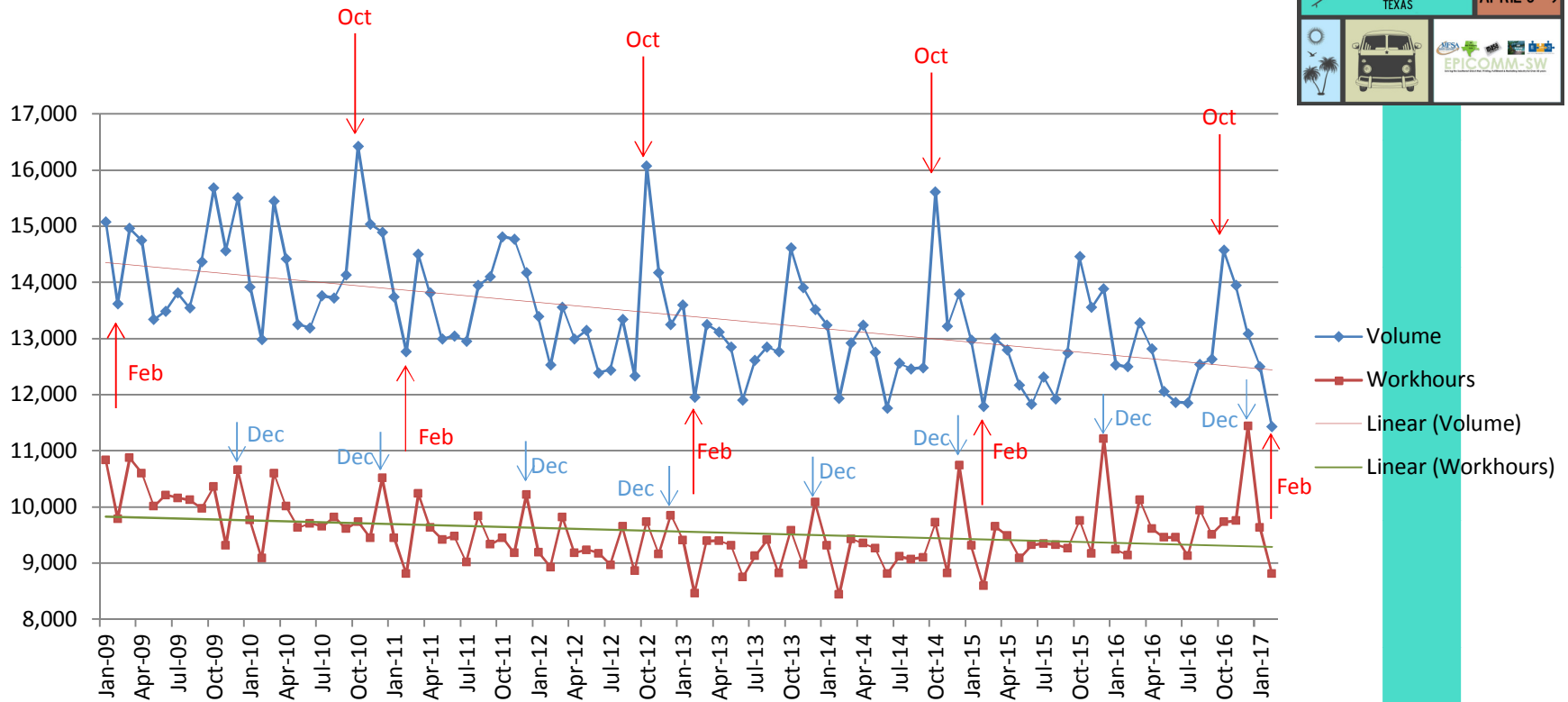
- Revenue and expense
  - Controllable operating revenue: \$30.47 billion (-0.2% to plan, -1.7% to SPLY)
  - Controllable operating expenses: \$29.87 billion (+1.4 to plan, +2.4 YTD) (excluding OWCP adjustment, prefunding payments)
  - Controllable operating income/loss: +597 million
  - Net income/loss: +1.006 billion
- Volume
  - Total: 65.53 billion pieces (-1.1% to plan, -2.1% to SPLY)
  - First-Class Mail: 25.996 billion pieces (-4.1% to SPLY)
  - Standard Mail: 34.238 billion pieces (+1.3% to SPLY)
  - Periodicals: 2.20 billion pieces (-5.9% to SPLY)
  - Shipping & Package Services: 2.494 billion pieces (+11.0% to SPLY)
  - Shipping & Package Services revenue exceeds Standard Mail revenue on 7.29% the volume of Standard Mail



**Mailers Hub**

Bringing Commercial Mailing,  
Resources, and Solutions Together

# USPS Finances – Trends



Monthly volume and workhour trend – 2009-present

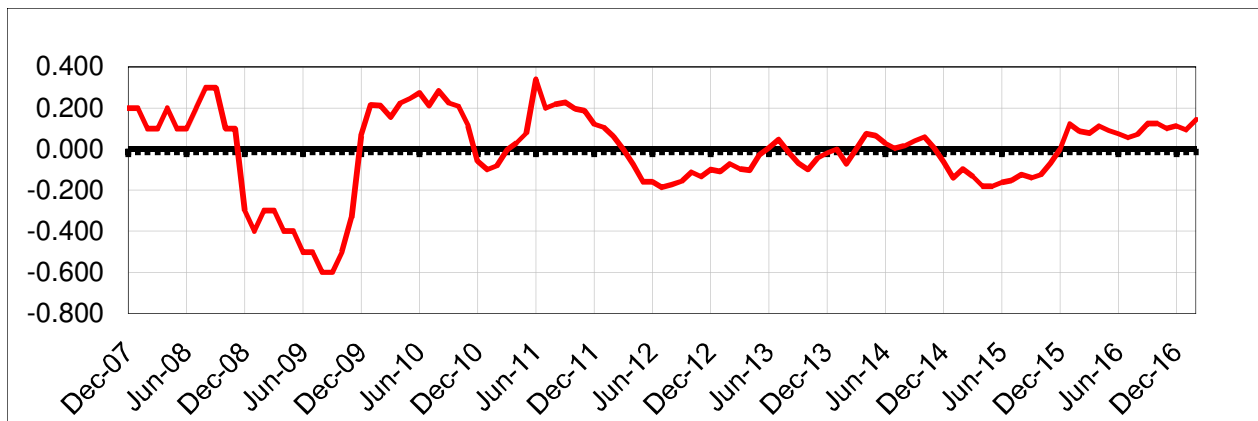
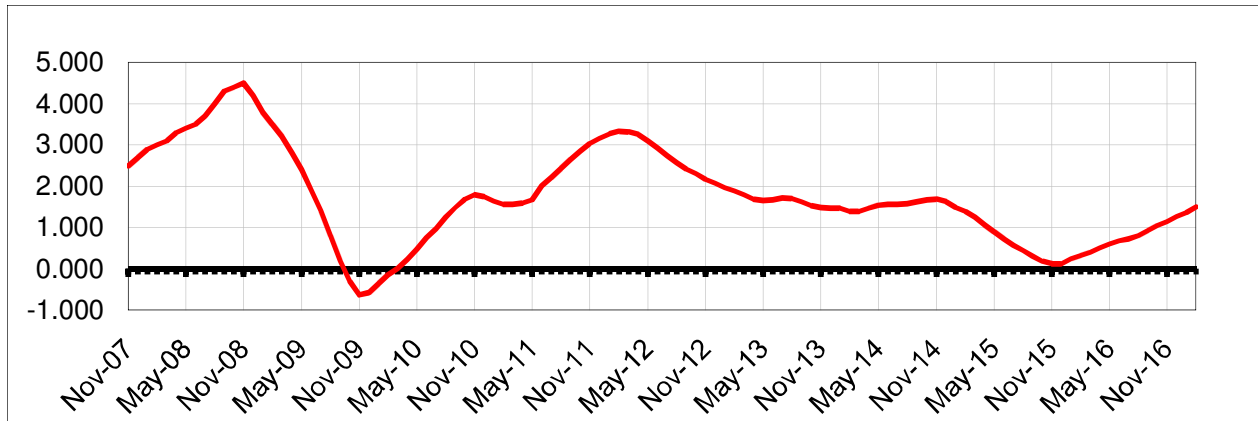
<b>BUSINESS</b> EDUCATION ACHIEVE COMMERCE POSTAL PRINTING MARKETING EARNINGS <i>Growth</i> SUCCESS	
	2017 <b>EPICOMM</b> SOUTHWEST CONFERENCE 
SOUTH PADRE ISLAND TEXAS 	<b>APRIL 6 - 9</b> 



**Mailers Hub**

Bringing Commercial Mailing,  
Resources, and Solutions Together

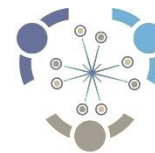
# USPS Finances – CPI



12-month  
CPI  
Average  
Nov 2007-  
Feb 2017

Rate of  
change  
Dec 2007-  
Feb 2017

This information is the sole property of the presenter and is not approved or endorsed by USPS. © 2017 Mailers Hub LLC.



**Mailers Hub**

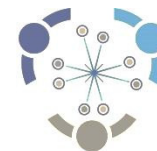
Bringing Commercial Mailing,  
Resources, and Solutions Together

# USPS Finances – the Rate Case

- Filed October 12
  - Based on August CPI
  - Overall increase +/- 1% (including “banked” authority)

Class	Cap %	Banked %	Total % available	% used in filing	Banked % remaining (adjusted)
First-Class	0.422	0.382	0.804	<b>0.780</b>	0.024
Standard Mail	0.422	0.507	0.929	<b>0.900</b>	0.027
Periodicals	0.871	0.000	0.871	<b>0.832</b>	0.038
Package Svcs	0.871	0.179	1.050	<b>1.007</b>	0.076
Special Svcs	0.871	1.711	2.582	<b>2.536</b>	0.046
<i>Source: USPS filing</i>					

- Implementation date: January 22, 2017

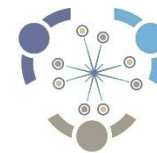


**Mailers Hub**

Bringing Commercial Mailing,  
Resources, and Solutions Together

# USPS Finances – the Rate Case

- Issues
  - Data completeness, accuracy
  - Adjustments to filed rates
    - October 28, November 8 errata notices
    - 64 Standard Mail rate cells modified
    - Increased class average increase to 0.900%
  - Rate relationships
    - Regular/nonprofit
    - Discounts
    - “Hockey stick” at break point
  - Worksharing
    - Size of discounts
    - Relationships
    - “Passthroughs”

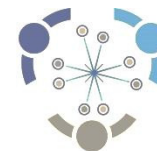


**Mailers Hub**

*Bringing Commercial Mailing,  
Resources, and Solutions Together*

# USPS Finances – the Rate Case

- Structural changes
  - Third ounce free (commercial First-Class Mail) ✓
  - One price for Auto/Mach FCM letters up to 3.5 ounces ✓
  - 3-Digit and AADC combined into AADC (FCM and Standard Mail) ✓
  - Elimination of FSS pricing (but not presort) ✓
  - “Standard Mail” renamed to “USPS Marketing Mail” ✓
  - “Break point” for STD letters raised from 3.3 to 3.5 ounces ✓
  - “Break point” for STD flats and non-auto/non-mach letters raised from 3.3 to 4.0 ounces ✓
  - Fees combined or eliminated for some types of mail ✓
  - COD redesign ✗



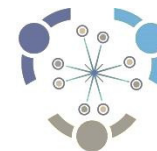
**Mailers Hub**

*Bringing Commercial Mailing,  
Resources, and Solutions Together*



# USPS Finances-Future Rate Cases

- Looking ahead
  - Annual price changes planned
  - CPI cap trending toward +/- 2%
  - New or continues promotions
  - Further simplifications in rate structure and standards
    - Rate structure
    - Shape and weight standards
- Significant proposals to watch
  - Postcards: changes to size (FCM), new rate category (STD)
  - Standardization of maximum letter weight and “weight breaks” (FCM)
  - Drop shipment (FCM)
  - Revisions to weight limits for flats (STD/BPM)
  - Requirement for an indicia (FCM/STD)



**Mailers Hub**

*Bringing Commercial Mailing,  
Resources, and Solutions Together*

# USPS Initiatives

- Network rationalization
  - Initial phases: full or partial consolidation of about 210 facilities
  - Consolidation or closure of about 80 facilities remains
    - Implementation problems caused mail delays in winter 2014-2015
    - Consolidations planned for Spring 2015, deferred to 2016, now into 2017
    - Opposition to consolidations and service standard changes continues
  - Many former processing plants converted to cross-dock hubs
  - Future standards for destination rate eligibility undefined
- Informed Delivery
  - Initial phases: Northern Virginia, Metro NYC/NJ/CT
  - Nationwide rollout planned by the end of 2017
- Informed Visibility
  - Release 1.0 (March 2017): piece, bundle, container visibility from scans; logical and assumed events
  - Additional features in Releases 2.0 and 3.0 (April/May)



**Mailers Hub**

*Bringing Commercial Mailing,  
Resources, and Solutions Together*

# USPS Initiatives

- Surface visibility
  - Based on Full Service IMB mail
  - Information from mailer documentation, in-process scans
  - “Start-the-clock” to plant level processing
  - Complete end-to-end visibility now possible
  - “Last mile” delays visible, actionable
- Full Service IMB and Seamless Acceptance
  - Use of Full Service and Seamless Acceptance being linked to optional programs and incentives
  - IMB-rich mailstream provides visibility, enables better measurement
  - USPS scorecard reveals operational errors in mail quality, but mailers often fail to access, use available reports
  - Error reporting began in October, assessments on November 14

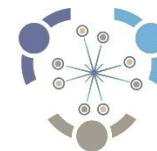


**Mailers Hub**

*Bringing Commercial Mailing,  
Resources, and Solutions Together*

# USPS Initiatives

- Move Update:
  - July 1: *Clarification of the Move Update Standard*
    - Explained conventional and “alternative” methods of compliance
    - Offered answers to typical questions
  - July 6: *Address Quality Census Measurement and Assessment Process*
    - Amended existing proposed rule, sought comments
      - Defined terms
      - Offered answers to prior comments
      - Proposed to move from sampling to census evaluation
      - Proposed to assess penalties for NCOA errors above 0.5% threshold
      - Indicated USPS is considering offering free ACS to mailers who present 95% Full Service mail in a calendar month
  - February 27: Revised proposed rule published
  - Final rule planned for later in 2017, assessments begin six months after final rule is published in the *Federal Register*



**Mailers Hub**

Bringing Commercial Mailing,  
Resources, and Solutions Together

# Service Performance



	First-Class Mail						Standard Mail						Periodicals	
	Quarter			Year-to-Date			Quarter			Year-to-Date			Quarter	Year-to-Date
	Overnight	2-Day	3-to-5 day	Overnight	2-Day	3-to-5 day	Overall Letters	Overall Flats	Overall Carrier Route	Overall Letters	Overall Flats	Overall Carrier Route	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	<b>96.2</b>	<b>94.9</b>	<b>92.0</b>	96.2	94.9	92.0	<b>90.2</b>	<b>77.4</b>	<b>89.6</b>	90.2	77.4	89.6	<b>81.5</b>	81.5

Quarterly scores PQI/FY2016 – PQI/FY2017



**Mailers Hub**

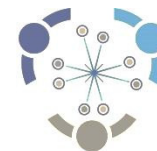
*Bringing Commercial Mailing, Resources, and Solutions Together*

# Review of the Ratesetting Process

- 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.**”

- Review began in December 2016, final report in 2017
  - “Objectives” include “adequate revenues, including retained earnings, to maintain financial stability”
  - Same law included imposition of \$55.8 billion prefunding requirement
- Outcome uncertain
  - Keep, eliminate, or modify CPI cap
  - Re-establish a “cost-of-service” process



**Mailers Hub**

Bringing Commercial Mailing,  
Resources, and Solutions Together

# Review of the Ratesetting Process

- Mailers Hub/NAAD joint comments filed March 20
  - Overall, the process is not working as designed
  - Pressure to reduce costs to align with revenue drove USPS to become more efficient, but also caused reductions in service, lack of capital
  - Current rate stability is because of CPI stability, but CPI can rise
  - USPS price “flexibility” less than it seems because of restrictions
  - The CPI (consumer cost experience) isn’t relevant to the USPS
  - PAEA imposed cost burden (prefunding); ratesetting process could not allow sufficient revenue to pay it and be financially stable
  - CPI cap limits revenues as a proxy for costs
- Recommendations:
  - Keep a cap, but don’t use the CPI as the benchmark
  - Regulate costs, not rates, and include service consequences of cost savings
  - Allow adequate revenues for both controllable and uncontrollable costs

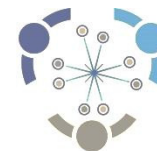


**Mailers Hub**

Bringing Commercial Mailing,  
Resources, and Solutions Together

# Congress: Vacancies

- USPS Board of Governors
  - PMG, DPMG
  - 11 political appointees
    - Nominated by the president
    - Confirmed by the Senate
- Vacant positions
  - All political appointee positions unfilled
  - Last governor's term expired December 8
  - Board now operating as "Temporary Emergency Committee"
  - Major decisions can't be made except by governors
  - Six nominees awaited confirmation, but action blocked
  - All nominations expired at end of session
- No nominations yet in the new Congress



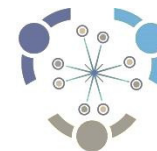
**Mailers Hub**

Bringing Commercial Mailing,  
Resources, and Solutions Together



# Congress: Legislation

- 114<sup>th</sup> Congress
- Senate:
  - S 2051 filed September 17, 2015, by Sen. Carper (DE)
    - Hearing held January 21, 2016
    - No further action taken
- House:
  - HR 5707, HR 5714 filed July 11, 2016
    - Bipartisan sponsorship
    - Hearing held July 12, favorably reported by committee
    - CBO “scored” both
    - No further action taken

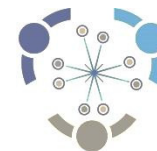


**Mailers Hub**

*Bringing Commercial Mailing,  
Resources, and Solutions Together*

# Congress: Legislation

- 115<sup>th</sup> Congress
- Senate:
  - Nothing filed in current session
- House:
  - HR 756 filed January 31, 2017
    - Changes USPS health plans, requires use of USPS-specific demographic data, allows phase-out of business door delivery, other
    - Bipartisan sponsorship
    - Supported by major stakeholders (USPS, postal labor, mailing industry)
    - Favorably reported out of committee markup March 16
  - HR 760 filed January 31, 2017
    - Allows outside investment of 25% of Retiree Health Benefit Fund
    - Bipartisan sponsorship
    - Favorably reported out of committee markup March 16

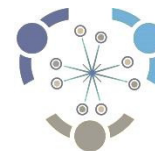


**Mailers Hub**

*Bringing Commercial Mailing,  
Resources, and Solutions Together*

# What You Can Do

- Stay informed
  - Price changes
  - Network changes
  - Revisions to mailing standards
  - PRC activities
  - Legislation in Congress
- ***Pay attention!***



**Mailers Hub**

Bringing Commercial Mailing,  
Resources, and Solutions Together

# Questions





# Mailers Hub

*Bringing Commercial Mailing,  
Resources, and Solutions Together*

*[www.MailersHub.com](http://www.MailersHub.com)*

*503-482-4636*

