

## A Quick Reference on the U.S. Postal Service

### Overview

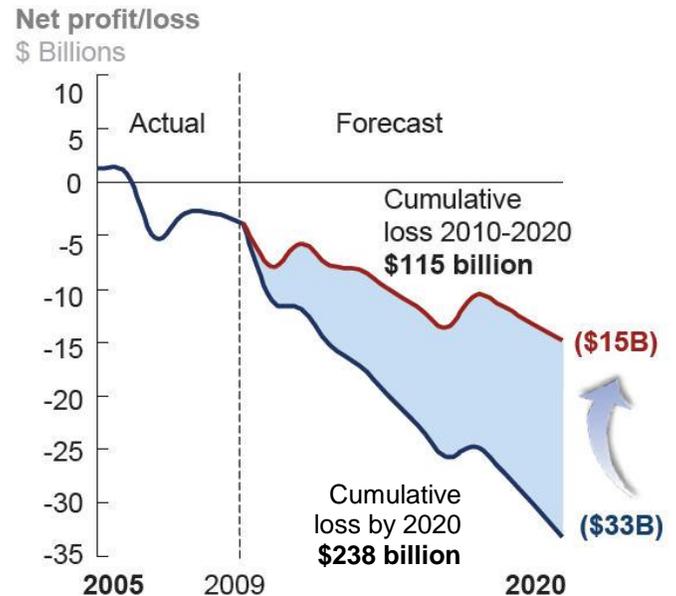
Created in 1789 as the Department of the Post Office, the U.S. Postal Service (USPS) commenced operations as an “independent establishment of the executive branch of the Government of the United States” in 1971. USPS has a legal mandate to provide “fundamental service” to the American people at “fair and reasonable rates.”

Universal service has been generally understood to entail six-day-per-week delivery to every address in the United States for one flat rate. To compensate for this obligation, USPS holds monopolies on the delivery of non-urgent letter communications and on the use of mailboxes. USPS has repeatedly asked for permission to move to five-day-per-week delivery.

### Postal Service Operating Revenue & Expenses (in millions of dollars)

Year	Revenue	Expenses	Required Prepayments	Loss from Operations
2012	\$65,223	\$80,964	\$11,100	(\$15,741)
2011	\$65,711	\$70,634	--	(\$4,923)
2010	\$67,052	\$75,426	\$5,500	(\$8,374)

### Projected \$238 Billion Loss By 2020

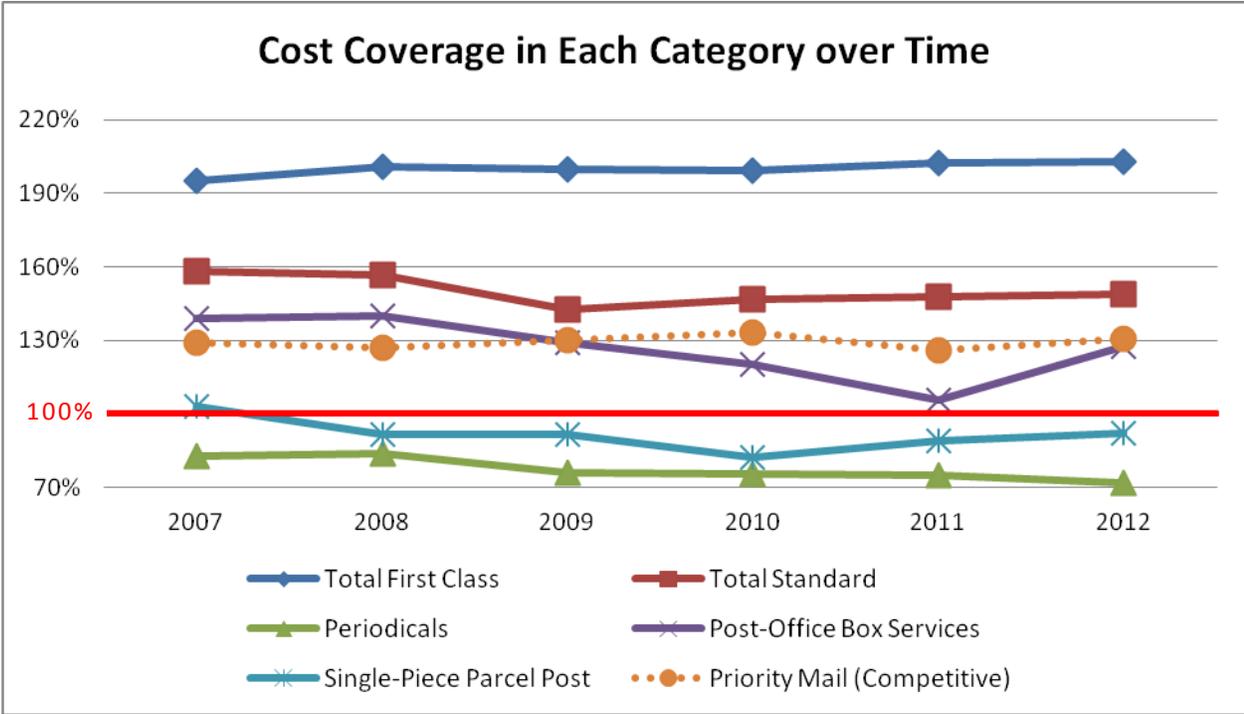


In March 2010, the Postal Service projected \$115 billion in cumulative losses by 2020 if it achieved all cost savings that it asserted were under its control. USPS projected \$238 billion in cumulative losses according to current trajectories without new reform strategies.

Source: USPS, "Ensuring a Viable Postal Service for America," March 2010

### Operations

- 2012 operating revenue was \$65.22 billion and expenses were \$80.96 billion.
- 159.86 billion pieces of mail delivered in 2012.
- 528,458 career employees in 2012, down from 696,138 career employees. 100,570 non-career employees in 2012, a slight increase from 100,061 in 2006.
- More than 85% of postal employees are covered by collective bargaining agreements.
- There are 31,857 USPS-managed post offices, stations and branches, as well as 417 processing facilities.
- In 2012, First-Class Mail accounted for 44% of USPS revenues and 43% of total mail volume.
- In 2012, Standard Mail accounted for nearly 50% of mail volume and about 25% of overall revenue.
- The USPS fleet consists of 212,530 vehicles.



Of all categories of mail, First Class Mail contributes the greatest percentage of its revenue toward institutional overhead. (Source: USPS Annual Compliance Determination Reports)

## Products and Services

### Market-Dominant Services (about 77% of total revenues)

**First Class:** Personal correspondence, letters, and bills or statements of account. It may also be used for advertisements and lightweight merchandise weighing less than 13 ounces.

**Standard Mail:** Bulk mail weighing less than 16 ounces, such as advertisements, catalogs, or small packages.

**Periodicals:** Publications like magazines, newspapers, newsletters, and bulletins.

**Single-Piece Parcel Post:** Small and large packages, thick envelopes and tubes containing gifts and merchandise.

**Media Mail:** Books, sound recordings, recorded video tapes, printed music, and recorded computer-readable media (such as CDs, DVDs, and diskettes) up to 70 lbs.

**Bound Printed Matter:** Permanently-bound sheets of advertising, directory, or editorial material such as catalogs and phonebooks up to 15 lbs.

**Library Mail:** Items on loan from or mailed between academic institutions, public libraries, museums, etc.

### **Post-Office Box Services**

### Competitive Products (about 17.5% of total revenues)

**Express Mail:** Overnight delivery service for documents and packages weighing less than 70 lbs.

**Priority Mail:** Expedited delivery service for documents and packages weighing less than 70 lbs that reaches most U.S. locations in 2-3 days.

**Ground:** Includes parcel select, which offers large and medium-sized shippers discounts by mailing sorted parcels closer to their destination, and parcel return.

**Competitive International Services:** Includes international expedited service, international priority mail, and other services.

**Domestic Competitive Services:** Premium forwarding, greeting cards, shipping and mailing supplies, and post office boxes.

## The Postal Accountability and Enhancement Act of 2006

- Required USPS to put aside an average of \$5.6 billion annually through 2017 to cover future retiree healthcare costs.
- Defined market-dominant and competitive categories of products.
- Imposed a hard rate cap on monopoly products. Generally, USPS may not raise rates beyond the rate of inflation.
- Granted USPS flexibility in the pricing of competitive products.
- Redefined the Postal Regulatory Commission to oversee the Postal Service.
- Codified service standards into law.

## Understanding the Postal Monopoly

The Postal Service maintains two monopolies:

- Mail monopoly: Delivery of letters weighing less than 12.5 ounces by anyone but USPS is prohibited.
- Mailbox monopoly: USPS has exclusive access to customers' mailboxes.

USPS is exempt from vehicle licensing requirements and does not have to pay parking tickets or municipality fees. It also has power of eminent domain and its own police force.

The Postal Service does not collect sales tax and does not pay local or state property tax. It calculates the amount of income tax it would pay on revenue from its competitive products if it were a private interest but then pays that putative amount of tax to itself.

The Postal Service may borrow funds, up to \$3 billion annually or \$15 billion total, from the U.S. Treasury at discounted rates. It reached this limit in October 2012.

## Postal Timeline

**August 1970** -- The Postal Reorganization Act replaces the Post Office Department with the U.S. Postal Service, moves rate-setting mechanism out of the political process, and allows for collective bargaining between postal management and employees.

**May 2003** -- USPS assents to its first Negotiated Service Agreement, with Capital One, as part of an effort to increase mail volume. Under these agreements, big mailers can receive discounts if they meet certain volume thresholds and engage in certain labor-saving practices, like presorting and opting out of return service.

**July 2003** -- The President's Commission on the U.S. Postal Service issues recommendations.

**December 2007** -- The Department of the Treasury released a report on the Postal Service's accounting and cost-attribution practices. It found that USPS was able to attribute only 60 percent of its costs to specific products and services.

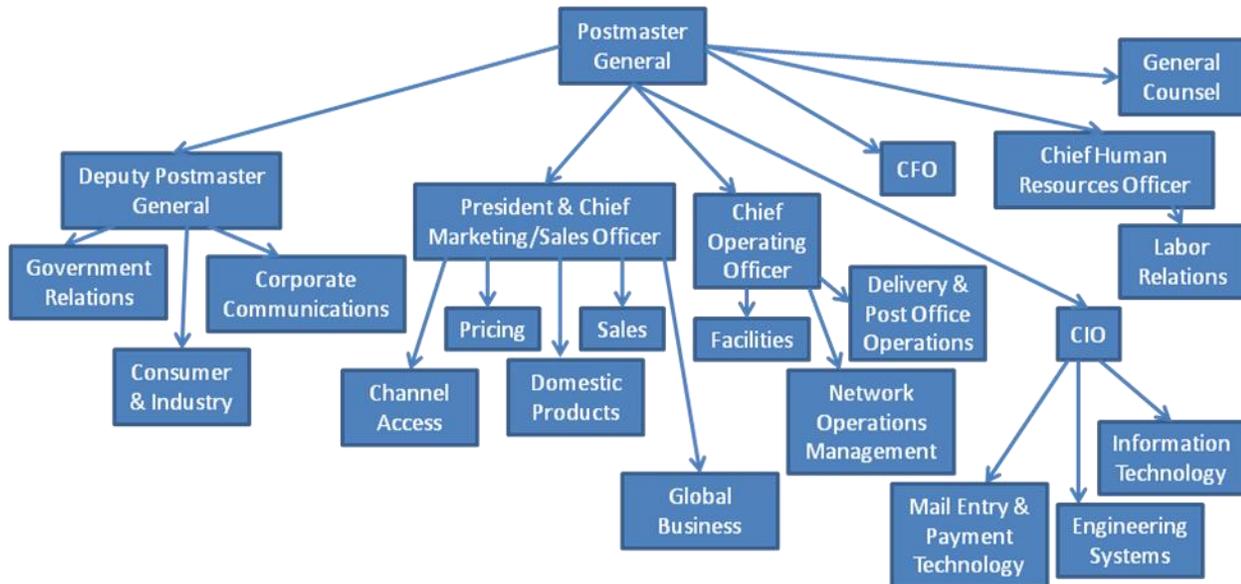
**January 2008** -- The Federal Trade Commission releases a report mandated by the PAEA on the competitive advantages and disadvantages the Postal Service possesses as a result of its status as a government entity. The report also explored the Service's monopoly on consumers' mailboxes.

**March 2010** -- Postal Service releases 10-year Comprehensive Strategic Plan to maintain the viability of the agency. Postal executives warn of cumulative losses reaching \$238 billion over the decade absent fundamental changes. USPS claimed it could avert \$123 billion without assistance but would need Congress's help to achieve the remaining \$115 billion in savings.

**September 2011** -- Congress allows the Postal Service to delay a \$5.5-billion payment to the Postal Service Retiree Health Benefits Fund from September 30, 2011 to September 30, 2012.

**February 2013** -- Postmaster General Patrick Donahoe announces that the Postal Service will end Saturday delivery in August 2013, despite a lack of legal authority to do so. But in April 2013, the USPS Board of Governors announced that the agency would continue with Saturday delivery.

## USPS Management Organizational Chart



### Oversight

**Board of Governors:** Consists of nine members appointed by the President and confirmed by the Senate, the Postmaster General and the Deputy Postmaster General. The Board governs Postal Service operations, practices, policies, and expenditures.

**Office of the Inspector General (OIG):** Independent of postal management, the OIG reports directly to the Board of Governors. OIG investigates and evaluates programs and operations of the USPS to maintain integrity and accountability.

**Congress:** The Senate Committee on Homeland Security and Government Affairs and the House Committee on Oversight and Government Reform are responsible for congressional oversight of USPS.

**Government Accountability Office:** The audit and investigative arm of Congress which ensures the accountability of the federal government, including independent agencies like the Postal Service.

**Postal Regulatory Commission (PRC):** An independent regulatory agency made up of five commissioners appointed by the President and confirmed by the Senate for six-year terms. The PRC reviews and approves postal rates and classifications, adjudicates complaints, and determines whether USPS is in compliance with existing law. The PRC has subpoena power, the authority to adjust rates, and the ability to

levy fines against USPS. The PRC maintains the Mail Classification Schedule and produces the Annual Compliance Determination.

### Stakeholders

#### Postal Labor Unions

**National Association of Letter Carriers:** Represents nearly 300,000 letter carriers, of which about two-thirds are active city delivery letter carriers employed by the USPS. Contract expired November 2011. Currently in interest arbitration with USPS.

**American Postal Workers Union:** Represents 220,000 clerks, maintenance employees, motor vehicle operators, and non-mail processing workers. Contract went into effect May 2011 and expires May 2015.

#### **National Rural Letter Carriers Association:**

Represents about 105,000 rural letter carriers. Interest Arbitration awarded July 2012, resulting in a new contract, which expires May 2015.

**National Postal Mail Handlers Union:** Represents More than 50,000 mail handlers in postal facilities across the United States. Contract expired November 2011. Currently in interest arbitration with USPS.

*We are indebted to the excellent work of our late friend and colleague Rick Merritt for providing the inspiration for this project.*