

A Quick Reference on the U.S. Postal Service

Overview

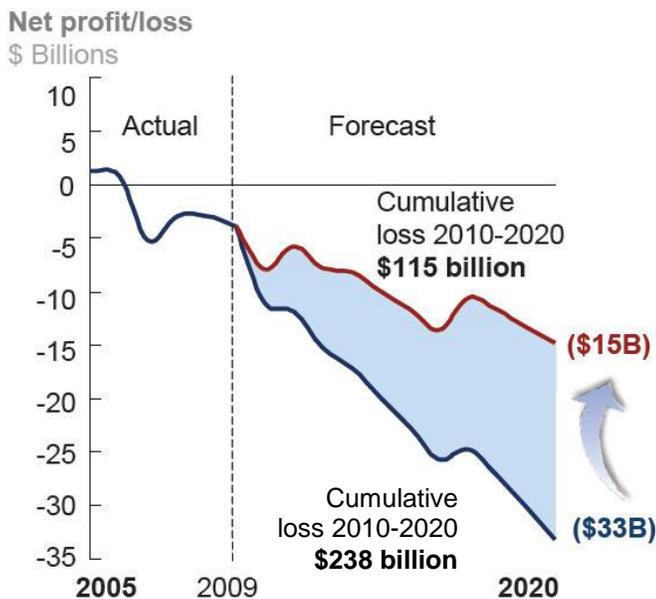
Created in 1789 as the Department of the Post Office, the U.S. Postal Service (USPS) commenced operations as an “independent establishment of the executive branch of the Government of the United States” in 1971. USPS has a legal mandate to provide “fundamental service” to the American people at “fair and reasonable rates.” USPS fulfills its universal service requirement by offering a variety of classes of mail service within which the price does not vary unreasonably by customer for the level of service provided.

Universal service is 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 a monopoly on the delivery of non-urgent letter communications and on the use of mailboxes. In 2010, USPS formally asked for permission to move to five-day-per-week delivery.

Operations

- 2010 operating revenue was \$67 billion and expenses were \$75.2 billion.
- 170 billion pieces of mail delivered in 2010.
- In 2010, First-Class Mail accounted for 51% of USPS revenues and 46% of total mail volume.
- In 2010, Standard Mail accounted for 48% of mail volume and about 26% of overall revenue.
- 583,908 career employees, 87,779 non-career employees, down from 696,138 career employees and 100,061 in 2006.
- More than 85% of postal employees are covered by collective bargaining agreements.
- There are about 32,000 post offices, stations and branches, as well as 528 processing facilities.
- The USPS fleet consists of 215,000 vehicles.

USPS Projects \$238 Billion Loss Over 10 Years



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

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

Year	Revenue	Expenses	Required Prepayments	Loss from Operations
2010	\$67,052	\$75,426	\$5,400	(\$8,374)
2009	\$68,090	\$71,830	\$1,400	(\$3,740)
2008	\$74,932	\$77,738	\$5,600	(\$2,806)

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.

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 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.

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 makes recommendations to the President and Members of Congress.

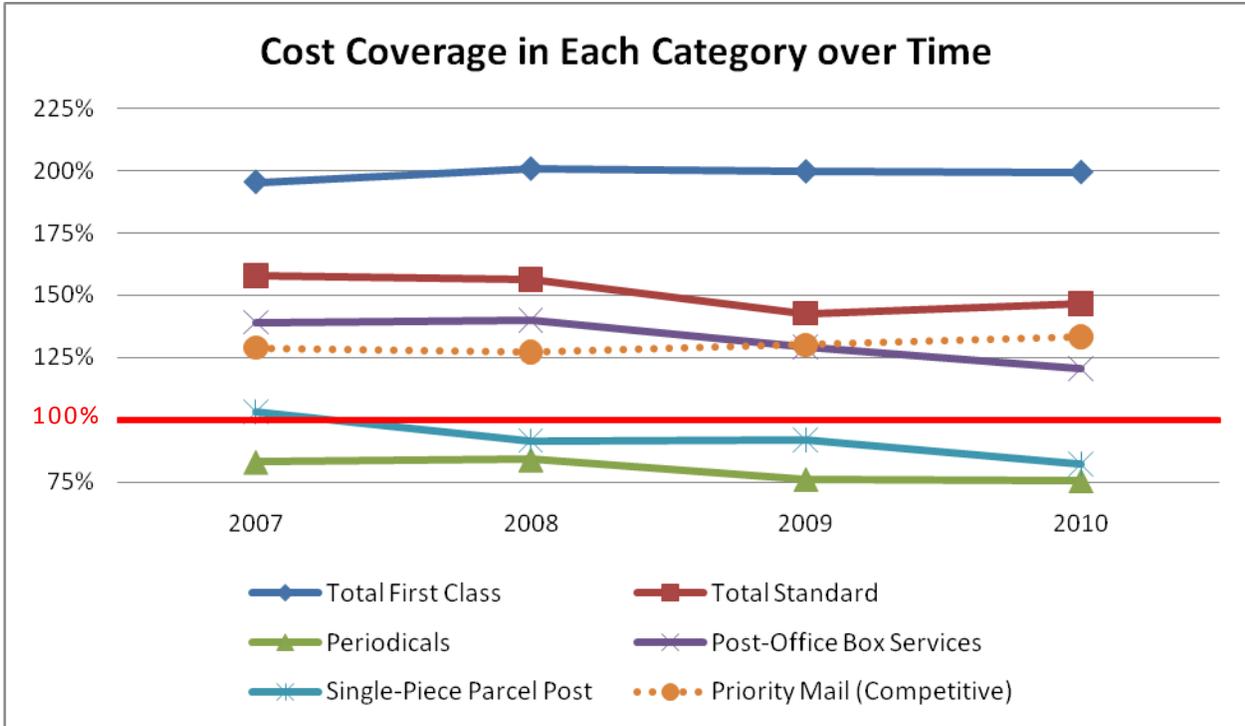
December 2007 -- The Department of the Treasury released a report on the Postal Service's accounting and cost-attribution practices. It found that USPS was able to attribute only 60 percent of its costs to specific products and services.

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.

May 2008 -- USPS begins offering price incentives to customers who meet certain volume thresholds for Priority and Express Mail or who purchase these expedited services online.

December 2008 -- PRC announces new accounting standards for USPS competitive products.

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.



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

Products and Services

Market-Dominant Services Protected by Statutory Monopoly (about 87% 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, flyers, 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, promotional, 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, and other qualified organizations.

Post-Office Box Services

Competitive Products (about 13% of total revenues)

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

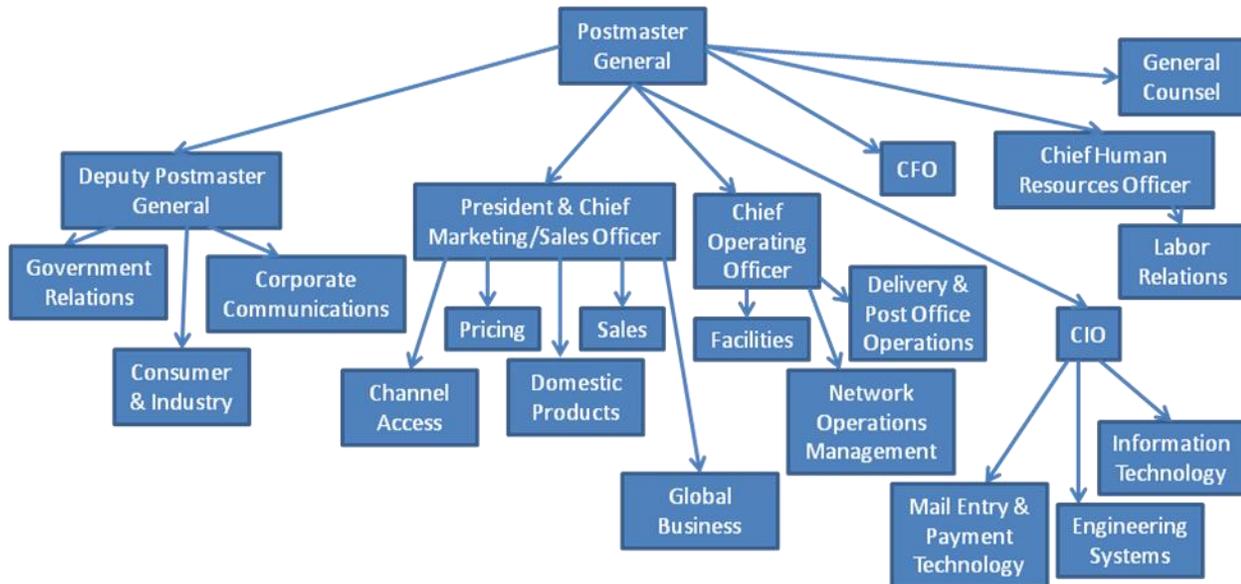
Priority Mail: Expedited delivery service for documents and packages weighing less than 70 lbs that reaches most U.S. locations in 2-3 days.

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.

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 the integrity and accountability of the Postal Service.

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): Formerly the Postal Rate Commission, the PRC is 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

American Postal Workers Union: Represents 220,000 clerks, maintenance employees, motor vehicle operators, and non-mail processing workers.

National Association of Letter Carriers:

Represents 300,058 active and retired letter carriers, of which nearly 214,084 are active city delivery letter carriers employed by the USPS.

National Rural Letter Carriers Association:

Represents 123,000 rural letter carriers.

National Postal Mail Handlers Union: Represents More than 50,000 mail handlers in postal facilities across the United States.

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